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QUESTIONS AND ANSWERS
IN
BOOK-KEEPING & ACCOUNTING

BY

JAMSHED R. BATLIBOI, F.S.A.A. (HONS.), F.C.A., F.I.C.W.A.

SEVENTH EDITION

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PREFACE TO THE SEVENTH EDITION

The ever increasing demand for this work has necessitated a fresh edition. No changes have been made in the arrangement and the subject-matter of the text as appearing in the last edition.

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Bombay, 21st July 1971.

PREFACE TO THE FIRST EDITION

As a Professor of Accounting for a period extending over twenty-seven years, I have had innumerable opportunities of coming in close contact with several thousands of students, and have always been impressed with the fact that the failure on the part of a large majority of students arises not from want of any knowledge of the subject, but from inability to give expression to such knowledge in appropriate language. Besides, the method of acquiring and imparting knowledge in form of questions and answers has stood the test of time, and experience has shown that a technical subject like Accounting, if presented in this shape, is capable of being more readily grasped than in the form of an ordinary text-book.

The present work is, therefore, designed in its entirety in questions and answers with a two-fold purpose in view, firstly, to enable any student or businessman to acquire a thorough practical insight into the science of Accounting in all its varied phases, and, secondly, to serve as an aid to expression.

The questions are arranged and graded in their natural line of order and the answers give definite and plain guidance on every conceivable point likely to occasion doubt or trouble to students. The work covers the entire range of the subject in its general and special aspects, and is thoroughly upto date. The practical application of the science of Accounting to many of the problems with which students are confronted has been most exhaustively dealt with. Where the nature of the question has necessitated, no pains have been spared to answer at great length in order that the point dealt with may be discussed in all its phases.

The work, apart from training the reader into a proper understanding of the theory and practice of this exact science, will serve as an invaluable link between my "*First Steps in Double-Entry Book-keeping*" and '*Advanced Accounts*'

I must express my indebtedness and thanks to Mr H P Dalal, A S A A (Hons), G D A , A I S A , for the valued assistance he has rendered me in the compilation of a portion of the work and to Mr K S Kshirsagar, G D A for having helped me with the proofs

Bombay, 4th May 1933 JAMSHED R BATLIBOI

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QUESTIONS & ANSWERS IN BOOK-KEEPING & ACCOUNTING

CHAPTER I

PRINCIPLES OF DOUBLE-ENTRY

Q. 1. *Define Book-keeping.*

A. Book-keeping may be defined as the science of recording pecuniary transactions (i.e transactions relating to money or money's worth), under appropriate accounts.

Q. 2. *What are the objects to be aimed at in recording business transactions?*

A. The objects to be aimed at in recording transactions are as under:

(a) The record should be clear, complete, accurate and in sufficient detail, so as to enable the proprietor of the business to ascertain the facts relating to any transaction or a series of transactions at any future time, without the least trouble and delay.

(b) The transactions should be so classified and arranged that the resultant profit or loss arising therefrom may be readily ascertained whenever required, and the true financial position of the business can be perceived at any time with the greatest ease and certainty.

Q. 3. *Explain the fundamental principles of Double-Entry.*

A. A business transaction always requires two parties for its performance, and means either the receipt of a benefit in shape of cash, goods or service or the imparting of such benefit. In order, therefore, to clearly indicate whether any particular transaction has resulted in the receipt of a benefit or the giving of a benefit, it has been found necessary to divide each account into two sections. One section (the left-hand side) of each account is thus utilised for the recording of transactions in respect of which benefit has been received by that account, and the other section (the right-hand side) for recording transactions in respect of which benefit has been imparted by that account. In this way, the total benefit received and imparted by each account may be readily perceived by looking at both the sides of that account, and the ultimate position of that account as to whether the benefits it has received are in excess of the benefits it has parted with or vice versa, may be easily ascertained by adding up each side and striking a balance.

Further, every business transaction has a two-fold effect and that it affects two accounts in opposite directions, and if a complete record were to be made of each such transaction, it would be necessary to debit one account and credit another account Thus, the record of every individual transaction at once creates a debit and a credit It is this recording of the two-fold effect of every transaction that has given rise to the term 'Double-Entry" In order to decide which account is to be debited and which credited for the purpose of recording any particular transaction the first important point is to see which classes of accounts are affected by that transaction

Q 4 *What are Personal Accounts, and how are transactions recorded in such accounts?*

A Personal Accounts record a trader's dealings with persons or firms A separate account is opened for each such person or firm and by recording therein particulars of all transactions in cash, goods, etc, as may have taken place between the dealer and the person, the former can readily ascertain at any time the amount owing to or by that person to him.

On the debit side of each Personal Account are recorded the transactions *in respect of which the person becomes the debtor, and on the credit, those* in respect of which he becomes the creditor In other words the account of each person or firm is debited with any benefit such person or firm receives and is credited with any benefit such firm or person imparts

A **Debit Balance** on a Personal Account would indicate that the person in question has received more benefit than he has imparted to the trader and that he owes the trader the amount of the balance

A **Credit Balance** on a Personal Account would serve to indicate the reverse position, viz. that the person has imparted more benefit than he has received from the trader, and, as a result, the latter owes him the amount of the balance

Q 5. *What are Property or Real Accounts, and how are they recorded?*

A Property or Real Accounts record dealings in or with property, assets or possessions A separate account is kept for each class of property, such as cash stock, plant, *machinery, furniture, etc, so that by recording* therein particulars of each such asset received or given away, the trader can ascertain the value of each asset on hand on any particular date

When any asset is received, the amount is entered on the debit side (left hand side) of that asset account, and on the asset being given away, that asset account is credited.

A **Debit Balance** on an asset or Real Account on any date would mean the value of the particular asset in hand on that date

Note:—In practice, there cannot be a credit balance on a Real Account, except when the asset in question has been finally disposed off at a profit.

Q. 6. *Explain the purpose served by Nominal or Fictitious Accounts.*

A. Nominal or Fictitious Accounts record a trader's expenses or gains. A separate account is opened for each head of expenditure or income, such as rent, salaries, wages, printing, stationery, cartage, interest, discount, commission, etc., so that the trader can see the amount expended, lost or gained under each heading. Each such account is debited when an expense or a loss is incurred and is credited when there is any gain.

A **Debit Balance** on a Nominal Account would mean that the loss under that particular head has exceeded the income or gain from that head and would then represent a loss.

A **Credit Balance**, on the other hand, would mean that the income or gain from a particular head has exceeded the expense or loss under that head and would represent a gain.

Q. 7. *What are the advantages of Double-Entry?*

A. The advantages of Double-Entry may be summed up as under:—

1. It brings into record both the aspects of every transaction,—the personal as well as the impersonal.

2. It provides most reliable information, from day to day, as to the amounts owing to and by the trader.

3. It facilitates reference to the details of any account, if information is needed regarding any set or series of transactions.

4. As a result of there being debits and credits of equal value, the arithmetical accuracy of the books can be proved by means of a Trial Balance.

5. It affords an easy comparison of the purchases, sales and the opening and closing stocks of any one period with similar items of the previous period and thus enables the trader to see whether his business has been progressing or retrograding.

6. By the preparation of a Trading Account, the trader can find out how far the anticipated gross profit has been realised.

7. By the raising of Nominal Accounts for the several heads of expenditure and the various sources of income, a Profit and Loss Account can be prepared at the end of each trading period, so that the trader may see for himself whether his business during any given period has resulted in a net gain or loss and how such gain or loss has arisen.

8. A comparison of the amounts expended under various heads with similar items of the preceding period helps to trace the causes of fluctuations

in net trading results, as also serves to indicate in what direction there has been extravagance, if any

9 It helps towards the ready ascertainment of the trader's financial position by the preparation of a Balance Sheet wherein are grouped in a classified form all the assets, liabilities and the capital of the proprietor at periodical intervals

10 It prevents fraud by rendering any alteration in accounts more difficult and facilitates discovery of irregularities, if any exist

Q 8 *Give the rules for debiting and crediting as applicable to the different classes of Accounts*

A The rules for debiting and crediting the different classes of Accounts may be briefly summarised thus —

Personal Accounts—Debit the receiver and credit the giver

Asset or Real Accounts—Debit what comes in, and credit what goes out

Nominal or Fictitious Accounts.—Debit expenses or losses, and credit gains

It should be borne in mind that these rules never vary and will have to be *rigidly followed under all conceivable conditions irrespective of the nature* of the business

Q 9 *Explain by means of illustrative transactions the fact that "every business transaction has a two-fold effect, and that such double effect is reflected by one account being debited and another account being credited"*

A The following illustration will emphasise the **two-fold effect of each business dealing,** and the fact that **every business transaction affects two accounts in opposite directions** It will also help the student to understand the principles underlying the debiting and crediting of accounts —

1 Bought Goods worth Rs 500 for Cash from X

This is a cash purchase, and the accounts concerned are both Asset Accounts—the Goods Account and the Cash Account As Goods have come in, Goods Account will have to be debited and as Cash has gone out, Cash Account will have to be credited There is no need to open X's Account inasmuch as X has been paid cash at the time of purchase and is not therefore, our creditor

2 ***Sold Goods to Y for Cash Rs 400***

In this case it is a cash sale and as Y has paid us cash, the accounts affected are the Goods Account and the Cash Account, both Asset Accounts *A complete record of the transaction would therefore be made by debiting*

the Cash Account (as cash has come in) and crediting the Goods Account (as goods have gone out).

3. Bought Goods from B on Credit for Rs. 600

This is a credit purchase, and the two accounts affected are the Goods Account (Asset Account) and B's Account (Personal Account). As goods have come in, Goods Account will have to be debited and since B has become our creditor, his account will have to be credited. Thus, the two-fold effect of this transaction is brought into record.

4. Sold Goods on Credit to A for Rs. 700

This transaction affects A's Account and the Goods Account. Now, as A is indebted to us as a result of this sale, his account must be debited and as goods have gone out, Goods Account will have to be credited. A complete record of this transaction is thus made by debiting A's Account and crediting Goods Account.

5. Bought Office Furniture from B on Credit for Rs. 1,000

This is not a purchase of goods and the account affected, therefore, is not Purchase Account, but Furniture Account. As this is a credit purchase, B becomes our creditor and his account will have to be credited, and as furniture has come in, Office Furniture Account will have to be debited.

6. Bought Office Furniture from B for Cash Rs. 1,000

This is a cash purchase of Office Furniture. Evidently, therefore, the accounts affected are Office Furniture Account and Cash Account. To record this transaction, Office Furniture Account will be debited and Cash Account credited. The account of B need not be credited at all in this case, as since he has been paid for in cash at the time of purchase he does not become our creditor.

7. Sold old Office Furniture to C for Cash Rs. 100

The two accounts concerned here are the Office Furniture Account and the Cash Account—both Asset Accounts. As cash has come in, Cash Account will be debited and as Office Furniture has gone out, Office Furniture Account will have to be credited. C's Account need not be debited inasmuch as he has paid for this purchase in cash.

8. Received from A Rs. 400 on account

The two accounts affected here are the Cash Account and A's Account. As cash has come in, Cash Account will be debited and as A has imparted the benefit by paying the amount, his account will be credited.

9. Paid X Rs. 300 on account

The two accounts concerned here are X's Account and Cash Account. As we have imparted benefit to X by payment, X's account will be debited and as cash has been parted with, Cash Account will be credited.

10 Paid Rs 500 into Bank from Office Cash

The two accounts affected in this case are the Bank Account and the Cash Account As the Bank has received the benefit Bank Account will be debited and as cash has gone out Cash Account will be credited

11 Paid Office Rent to Landlord Rs 150

The two accounts affected in this case are Rent Account and Cash Account The two-fold effect of this transaction is that an expense under the heading of Office Rent has been incurred and cash has been paid out to meet that liability Therefore Office Rent Account will be debited and Cash Account credited

Note—It is important to bear in mind in this case that although the landlord received benefit from us in shape of cash paid to him this benefit does not devolve upon him any liability to return us a corresponding sum in cash or kind and therefore his personal account should not be debited The amount paid was for office rent Therefore Office Rent Account should be debited and not Landlord s The point to be understood is that when a payment is made on account of any service rendered the debit should be given to that particular service account and not the personal account of the payee Thus if salaries are paid to the staff Office Salaries Account would be debited and not the personal accounts of the staff members Similarly if an amount is paid for advertisement or for commission or by way of printing charges the account to be debited would be Advertisement Account or Commission Account or Printing and Stationery Account and not the account of the payee

It is only when an amount is paid by us and the recipient has to return a similar benefit in cash or kind on a future occasion that he becomes indebted to us and his Personal Account will have to be debited In the same manner if we receive benefit from any person in shape of cash or kind and if that benefit has to be returned by us on a subsequent occasion the Personal Account of the party imparting the benefit will have to be credited in order to indicate the fact that such party is our creditor On our returning a similar benefit in future the Personal Account of the party concerned will be debited and closed to signify the fact that we have settled our account with him

12 Paid Cash for Office Stationery Rs 15

The two accounts concerned in this case are the Cash Account and Office Stationery Account As stationery has come in Office Stationery Account will be debited and as cash has gone out Cash Account will be credited

13 Purchased Office Stationery on Credit from Vasi & Co Rs 50

This again is a purchase of office stationery and not of goods Therefore the account to be debited will be the Office Stationery Account As

this has been a credit purchase, the corresponding credit will have to be given to the Personal Account of Vasi & Co.

14. Received Interest on Investments Rs. 200

The accounts affected here are Cash and Interest. As cash has come in, Cash Account will be debited and as interest represents a source of income, Interest Account will be credited.

15. Paid Salary to Office Staff Rs. 150

As a result of this transaction, the accounts affected are Salaries Account and Cash Account. As salaries represent an expense, Salaries Account will be debited and as cash has gone out, Cash Account will be credited. It would of course be wrong to debit the personal accounts of the staff members who receive such salary, as no indebtedness has arisen on their part to refund this benefit on a future occasion. The payment made is for service rendered and, therefore, the account to be debited should be the account representing the nature of the service, viz. Salaries Account.

Q. 10. *What do you understand by Books of Original Entry?*

A. Business transactions are not entered straight away in their respective accounts, but are at first passed through some Subsidiary Records and are then transferred to their appropriate accounts in a book called the Ledger. Formerly, Journal was the only Book of Original Entry in which all the transactions were first entered irrespective of their nature and in the order in which they occurred. But this naturally entailed a separate debit being given to the receiving account and a credit to the giving account (as explained in the preceding question), in order to bring into record the two-fold aspect of every individual business transaction. Experience soon showed, however, that **if transactions of a similar nature were entered together** in a separate Journal, a **considerable saving of clerical labour would be brought** about by obviating this necessity of individual debit and credit being given to two separate accounts for the complete record of every business dealing. Thus, the various Books of Original Entry soon found their place in accounting. Books of Original Entry are, therefore, records in which transactions are entered up in the first instance, in order that they may be subsequently transferred to their respective accounts in the Ledger.

Q. 11. *Why are Books of Original Entry called Subsidiary Journals?*

A. Books of Original Entry are called Subsidiary Journals, because whereas formerly all the transactions were passed through the one book called the Journal, modern book-keeping has sub-divided this into separate Journals, each for recording transactions of one particular type or nature, in order to obviate unnecessary clerical labour.

Q 12 *Give a list of Subsidiary Journals used in modern Book-keeping*

A The following are the Subsidiary Journals or Records used in modern accounting —

1 The Purchase Book to record all **Credit Purchases**

2 The Sales Book to record all **Credit Sales**

3 The Returns Inwards Book to record all goods returned to us by our customers

4 The Returns Outwards Book to record all goods returned by us to our customers

5 The Cash Book to record all cash received and paid.

6 The Bills Receivable Book to record all Bills received duly accepted by our debtors

7 The Bills Payable Book to record all bills granted by us to our creditors

8 The Journal. The original Journal still forms one of the subsidiary records but its use is restricted to the recording of transactions of an extra-ordinary nature which do not fall within any of the above sub-divisions

Q 13 *What advantages are secured by the use of Subsidiary Journals?*

A The advantages accruing from the use of Subsidiary Journals are

1 By recording transactions of any one class, such as Credit Purchases, Credit Sales, Cash Transactions, Bill Transactions or Returns through separate subsidiary Journals, a considerable **saving of clerical labour in postings** is effected Thus, if every credit purchase were entered in the Journal (as it used to be formerly), the posting of each such entry would have been to the debit of Purchases Account and to the credit of the Personal Account of the supplier concerned Now, by adopting the Purchases Journal for the record of all credit purchases, almost half the labour in postings is saved and this is due to the fact that whereas each Personal Account of the supplier would still have to be individually credited, the corresponding debit to the Purchases Account need only be given in shape of periodical total of this book. Similarly, by entering all Credit Sales in a separate subsidiary Journal called the Sales Journal or the Sales Book the individual credit to the Sales Account would be avoided, inasmuch as whereas the Personal Account of each customer concerned would be individually debited with its respective sale amount from the Sales Book, the corresponding credit would be given to the Sales Account not with each individual amount, but with the periodical total of the Sales Book

2. By the use of separate Journals for record of transactions of each particular type, the clerical work involved can be divided amongst the several members of the office staff and a speedy record of day-to-day transactions is thus rendered practicable in a large business.

3. By grouping together transactions of a similar nature in a separate book, the future reference to any particular item is considerably facilitated.

Q. 14. *Explain fully the use of the Purchases Journal.*

A. This book is utilised for recording all **credit purchases** of goods from day to day. It is alternatively called the Bought Book, the Purchases Book, the Invoice Book or the Purchase Day Book. The form of this Book must necessarily vary with the requirements of the business, but the underlying principles will remain the same irrespective of the nature of the business.

When goods are bought on credit, a statement giving the particulars of goods purchased is received from the suppliers along with the goods or in advance. This statement is called an Invoice. On receipt of each such Invoice, the quantities of goods as shown therein will be compared with the quantities actually received. It would also be seen as to whether the rates charged are proper and that all calculations are correct. On the Invoice having been checked in this manner, it would be given a running number and the contents will then be entered in the Purchases Book. Each Invoice would then be properly filed in consecutive order.

The date of the purchase, the name and address of the suppliers, the number of the Invoice and the total net amount of the Purchase need only be entered in the Purchases Books. It is deemed useless to enter up full details of each Invoice in this book, as it would entail unnecessary work. As each Invoice bears a running number and as this number is indicated against its corresponding entry in the Purchases Book, any further particulars regarding any entry can be promptly obtained by a reference to the Invoice concerned.

Posting the Purchases Book:—

Each entry is then posted (i.e., transferred in the Ledger) individually to the credit of the supplier's account concerned and the corresponding debit is given to the Purchases Account with the periodical total of this Book.

Q. 15. *Give the form of an Invoice.*

A. FORM OF INVOICE

Telegram—"HOSIERS". 97, Bazar Street, Fort,
Telephone No. 28252. Bombay, 25th February 1967.
Code—A. B. C. 5th Edition.

Messrs. J. Jariwala & Co., Karachi,

Bought of Popular Hosiery Manufacturing Co., Ltd.,
Bombay.

Terms 2½% one month

Particulars		Rate per dozen	Amount
		Rs	Rs
5 Cases Woollens No 1234	50 dozens	15	750
10 Ties extra quality	10 ,,	22	220
4 Assorted Mercerised Socks Nos 8 9 and 10	20 ,,	6	120
8 Silk Handkerchiefs 24 × 24"	40 ,,	25	1 000
			2 090
Less Trade Discount 20%			418
			1 672
Packing Charges			70
	Rs		1,742

Per Western Rly carriage paid E & O E

Signature

Q 16 *Explain how a Sales Journal is written up*

A The Sales Journal which is variously known as the Sales Book, the Sales Day Book or the Sold Book, is used for recording **Credit Sales** effected from day to day Ordinarily, the form of this book will follow the same lines as the Purchases Journal But before deciding upon the rulings of this Book, the special requirements of the business and the information which is sought to be obtained from this book will have to be consulted

As in a majority of businesses, the largest number of transactions would consist of Credit Sales, an enormous amount of labour would be entailed if all such transactions were passed through the Journal and then posted to the Ledger Accounts concerned The ordinary Journal Entry for each Credit Sale would be to debit the Personal Account of the customer and credit the Sales Account Thus, if there are a hundred transactions of Credit Sales in one month and if these are entered through the Journal, there would be a hundred debits to be given to the Personal Accounts of the customers concerned and a hundred credits to be given to the Sales Account Now, by entering all Credit Sales in the Sales Journal, the hundred individual credits to Sales Account as abovesaid would be avoided and in their place only one *credit will be given to Sales Account with the periodical total of this book* A considerable saving of time and clerical labour is thus effected and the basic principle of modern accounting to secure maximum of information with minimum of labour is duly fulfilled

The entries in the Sales Book are made from the Outward Invoice Book which contains an exact copy of each Invoice sent out to the customer Each such Invoice is numbered consecutively, and the reference to each Invoice number is given against its corresponding entry in the Sales Book There

would, therefore, be no necessity to give the details of each sale in this book. Each entry would indicate the date of the sale, the name of the customer, the number and the total amount of the Outward Invoice.

Posting the Sales Book:—

A separate Account will have to be opened in the Ledger for each customer to whom the goods have been sold on credit and will be debited with its relative amount of the sale. At the end of the month, the credit sales would be added and the total thus ascertained would be credited to Sales Account. The Double Entry of the Sales Book would thus be completed.

Q. 17. *What advantages accrue from the use of two Sales Books, one for each alternate day?*

A. In a fairly extensive business, the number of sale transactions effected from day to day would assume large proportions and in order that the financial records appertaining to such sales and the accounts of the customers concerned may be kept up-to-date, it would become necessary to have two Sales Journals, one to be used on every alternate day. In this manner, whereas the Sales Journal No. 1 may be used by the Outward Invoice Clerk on Mondays, Wednesdays and Fridays for the purpose of entering up of the Credit Sales of the days in question, the Sales Journal No. 2 may be simultaneously used by the Ledger-keeper on those days for the purpose of posting the entries to the respective Ledger Accounts. Similarly, when the Outward Invoice Clerk is busy entering up the Sales Journal No. 2 on Tuesdays, Thursdays and Saturdays, the Ledger-keeper would keep himself busy on these days with the posting of the sales as recorded in Sales Journal No. 1. The division of work would thus serve to maintain an up-to-date record of the numerous sale transactions.

Q. 18. *What do you understand by Purchases and Sales Returns?*

A. It frequently happens in actual business that goods may have to be returned after delivery for any of the following reasons, viz. that they were not according to the order; or that they did not come upto the sample or the standard of quality advertised; or that they were damaged or were subject to some other defects. Such goods as the trader may have occasion to return to his suppliers would be known as his Purchase Returns or Returns Outwards. On the other hand, the trader may have to receive goods returned to him by his customers and these would be known by him as his Sales Returns or Returns Inwards. All such Returns of Goods have to be passed through the Returns Journal.

Q. 19. *What are Debit and Credit Notes? Explain these giving the usual forms.*

A It is usual for the party returning the goods to send a Debit Note containing description and price of the goods returned, and notifying the person to whom it is sent that his account in the Ledger has been debited with the amount stated

FORM OF DEBIT NOTE

69, Jenkins Road, Fort,
Lahore, 8th March 1967

From Datta Ram & Co,
To Messrs Nathan & Co, Bombay

Please note that we have returned this day, per Central Railway the following goods and have debited your Account with the amount named hereunder —

	Rs
One case Tea of 20 lbs @ Re 1 per lb	20

(Sd) Datta Ram & Co

On such 'Returns' being accepted, the receiver of the goods usually sends a Credit Note, as shown below, which states the particulars of the goods returned and the amount which is credited by the recipient to the account of the sender Credit Notes are generally printed in red ink to distinguish them from Invoices

FORM OF CREDIT NOTE

122, Mint Road, Fort,
Bombay, 15th March 1967

Messrs Datta Ram & Co, Lahore
Credited by Nathan & Co

	Rs
By Returns—	
One case Tea of 20 lbs @ Re 1 per lb	20

(Sd.) Nathan & Co

Q 20 *Describe the uses of the books known as Returns Inwards and Outwards Journals*

A The goods returned to the trader by his customers are entered in a book called the 'Inwards Returns Journal' and those returned by the trader to his suppliers are entered in a book called the 'Outwards Returns Journal"

The rulings of these two books are similar to those of the Purchases and Sales Books, and the entries are made therein in just the same manner as those made in the Purchases and Sales Books.

Postings of Returns Journals:—

From the Inwards Returns Journal, the posting would be to credit the Personal Account of each customer concerned and to debit Returns Inwards Account with the periodical total of the book.

From the Outwards Returns Journal, the postings would be to debit the Personal Account of each supplier concerned and to credit Returns Outwards Account with the periodical total of the book.

Q. 21. *Enter the following transactions in suitable Subsidiary Records.*

1967

Jan. 3 Bought of P. Wadia & Co., Bombay.
50 pieces Shirtings @ Rs. 6 per piece.
40 pairs Dhoti @ Rs. 6 per pair.
Less 10% discount.

„ 5 Returned goods to P. Wadia & Co., Bombay, of the net value of Rs. 45.

„ 6 Purchased from C. Das Gupta & Co., Calcutta.
40 yards Velvet @ Rs. 5 per yard.
50 yards Silks @ Rs. 7.50 P. per yard.
Less 20% discount.

„ 9 Sold to Jina Brothers, Ahmedabad.
40 pieces Shirtings @ Rs. 7 per piece.
30 yards Velvet @ Rs. 5.50 P. per yard.

„ 12 Jina Brothers, Ahmedabad, returned as goods worth Rs. 25.50 P.

„ 14 Sold to Acharya & Co., Madras.
5 pieces Drill @ Rs. 11 per piece.

„ 15 Bought from Indian Manufacturing Co. Ltd., Bombay.
10 pieces Coating @ Rs. 20 per piece.
50 pieces Drill @ Rs. 10 per piece.
Less 15% discount.

„ 16 Sold to F. Jehangirji, Bombay.
20 yards Silk @ Rs. 6.10 P. a yard.

„ 20 Bought from S. Joshi & Co., Ahmedabad.
50 yards Silk at Rs. 3.25 P. per yard net.

„ 21 Returned goods to S. Joshi & Co., Ahmedabad, Rs. 25.75 P.

„ 23 Bought of P. Wadia & Co., Bombay.
40 pieces Shirtings @ Rs. 5.75 P. per piece.
20 pairs Dhoti @ Rs. 4.75 P. per pair.
Less 10% discount.

„ 24 Sold to C. Roy & Co., Calcutta.
7 pieces Coating @ Rs. 21.25 P. per piece.

„ 25 C. Roy & Co., Calcutta, returned us goods of the value of Rs. 18.50 P.

„ 26 We returned goods to Indian Manufacturing Co. Ltd., Bombay, Rs. 32.60 P.

„ 27 Sold to Trivedi Bros., Rajkot.
35 pairs Dhoti @ Rs. 5.25 P. per pair.

„ 28 Purchased from S. Joshi & Co., Ahmedabad.
40 yards Silk @ Rs. 5 per yard net.

„ 29 Sold to K. Bajan, Karachi.
3 pieces Coating @ Rs. 20.50 P. per piece.
10 yards Velvet @ Rs. 5.25 P. per yard.
40 yards Linen @ Rs. 2.25 P. per yard.

„ 31 Received back goods of Rs. 22.25 P. from K. Bajan, Karachi.

A.

PURCHASES BOOK

Date		Particulars	Inward Invoice No	L F.	Amount
1967					Rs P.
Jan	3	P Wadia & Co, Bombay	1	17	540 00
"	6	C Das Gupta & Co, Calcutta	2	39	460 00
"	15	Indian Manufacturing Co Ltd, Bombay	3	41	595 00
"	20	S Joshi & Co, Ahmedabad	4	152	162 50
"	23	P Wadia & Co, Bombay	5	17	283 50
"	28	S Joshi & Co, Ahmedabad	6	152	200 00
		Monthly Total Rs			2,241 00

L F. 231

Notes:—(a) The Ledger Folio Column is used to indicate against each entry the number of the page on which the account of the supplier is opened in the Ledger and where the amount is posted.

(b) As Credit Purchases represent benefits received, each supplier's account is credited with his respective amount and the monthly total of this book is debited to Purchase Account

(c) It must be noted that the entries in the Purchases Book are made with the net amounts after the deduction of the Trade Discount

(d) It is important to note that **credit purchases of goods for the purpose of re-sale** only are entered through this book

SALES BOOK

Date		Particulars	Outward Invoice No	L F	Amount
1967					Rs P
Jan	9	Jina Bros, Ahmedabad	1	7	445 00
"	11	Acharya & Co, Madras	2	27	55 00
"	16	F. Jehangirji, Bombay	3	115	122 00
"	24	C Roy & Co, Calcutta	4	135	148 75
"	27	Trivedi Bros, Rajkot	5	164	183 75
"	29	K, Bajan, Karachi	6	179	204 00
		Monthly Total Rs			1,158 50

L F 271

Notes.—(a) As Credit Sales represent benefits imparted, the Personal Account of each customer concerned will be debited with his respective amount and the monthly total shown above will be credited to Sales Account.

(b) It must be noted that **credit sales of the goods dealt in** only are entered in the Sales Book.

INWARDS RETURNS BOOK

Date	Particulars	Credit Note No.	L.F.	Amount
1967				Rs. P.
Jan. 12	Jina Brothers, Ahmedabad	1	7	25.50
„ 25	C. Roy & Co., Calcutta	2	25	18.50
„ 31	K. Bajan, Karachi	3	35	22.25
	Monthly Total Rs.			66.25

L.F. 234

Note:—As Returns Inwards represent benefits received by us, each Personal Account concerned will be individually credited and the monthly total of this book will be debited to Returns Inwards Account.

OUTWARDS RETURNS BOOK

Date	Particulars	Debit Note No.	L.F.	Amount
1967				Rs. P.
Jan. 5	P. Wadia, Bombay	1	8	45.00
„ 21	S. Joshi & Co., Ahmedabad	2	47	25.75
„ 26	Indian Manufacturing Co. Ltd., Bombay	3	59	32.60
	Monthly Total Rs.			103.35

L.F. 235

Note:—As Returns Outwards represents benefits imparted by us, each Personal Account concerned will be individually debited and the monthly total will be credited to Returns Outwards Account.

Q. 22. *Describe the use of a Cash Book.*

A. The function of a Cash Book is to record all cash receipts and payments of a trader from day to day. The record is effected by entering all cash received on the left-hand side of the Cash Book, and all cash paid on the right-hand side; the difference between the two totals indicating the balance of cash on hand.

The advantage of entering all Cash transactions in a separate book need hardly be stated. It is a matter of common knowledge that all business dealings ultimately resolve themselves into cash transactions, and as a result, records of cash dealings in any business must naturally be by far the largest. Now, if every cash transaction were recorded in the Journal, an enormous amount of unnecessary labour would be entailed in debiting or crediting Cash Account every time cash is received or paid. It is by this device of passing cash transactions through the Cash Book, that the labour of posting every item of receipt or payment of cash individually to Cash Account in the Ledger is avoided, and the advantage thus arising from the use of the Cash Book is far greater than that appertaining to the sub-divisions of the Journal into the Purchases, Sales and Returns Books.

As only cash transactions are recorded in this book in the order in which they occur and as the record takes the shape of a Ledger Account—the receipts being entered on the debit side and the payments on the credit side —it is not necessary to have Cash Account in the Ledger Thus the Cash Book in reality fulfils the functions of a Book of Original Entry as also a Ledger Account

Q 23 *Give illustration of a Cash Book in its simplest form*

A The simplest type of Cash Book has rulings similar to a Ledger Account there being columns on each side for the date, particulars, folio and amount The following is an illustration of the same

1967		Rs P
March 1	Opening Cash Balance	885 50
4	Paid Javeri & Co	200 00
9	Received from G Gupta	725 00
12	Received on account of cash sales	125 25
13	Paid to M Mitra & Co for Office Fan	35 25
15	Received Interest from B Bhatt on Loan granted to him	225 00
16	Remitted to Rao Bros	765 00
18	Received commission from Umer & Co	525 00
19	Paid for advertisement to Jam e-Jamshed for February	25 25
21	Received from M Malbari	1 125 00
23	Purchased stationery for cash	11 50
25	Purchased goods for cash	215 00
27	Drew for personal use	200 00
31	Paid salaries to staff for the month of February	175 00
31	Paid for Office Rent for February	75 00

Dr CASH BOOK IN ITS SIMPLEST FORM Cr

Date	Particulars	L F	Amount	Date	Particulars	L F	Amount
1967			Rs P	1967			Rs P
Mar 1	To Balance b/d		885 50	Mar 4	By Javeri & Co — Paid on Account		200 00
„ 9	„ G Gupta— Received on Account		725 00	„ 13	„ Furniture Account— Paid to M Mitra for Office Fan		35 25
12	„ Sales Account— Received for Cash Sales		125 25	„ 16	Rao Bros — Paid on Account		765 00
„ 15	„ Interest Account— Interest received from B Bhatt on Loan		225 00	19	„ Advt Account— Paid to Jame Jamshed for Feb		25 25
„ 18	„ Commission A/c — Received from Umer & Co		525 00	„ 23	„ Stationery Account For Office Stationery		11 50
„ 21	M Malbari— Received on Account		1 125 00	25	„ Purchases Account— Cash Purchases		215 00
				„ 27	„ Drawings Account— For personal use		200 00
				„ 31	„ Salaries Account to Staff for Feb		175 00
				„ „	„ Office Rent Account- For February		75 00
				„	„ Balance c/d		1 908 75
	Rs		3 610 75		Rs		3 610 75
Apr 1	To Balance b/d.		1,908 75				

Q. 24. *What do you understand by Cash Discount, and how does it differ from Trade Discount?*

A. **Cash Discount** may be defined as an allowance made by the receiver of Cash to the payer for prompt payment. In view of the fact that Cash Discount is always allowed or received when the payment is made, it is necessary to record this fact at the same place where the cash transaction is recorded. In order to enable this to be done, the Cash Book is usually provided with two additional columns, one on each side, the debit column being used for recording Discount allowed on receipt of Cash, and the credit column for recording Discount received at the time of payment.

Trade Discount is an allowance made by wholesale dealers to retailers off the Catalogue or Invoice Price. This allowance is made between buyers and sellers engaged in the same class of trade. The object of Trade Discount being allowed by the wholesale dealer to the retailer is to enable the latter to sell the goods at the price mentioned in the Catalogue or Price List issued by the wholesale trader. The Trade Discount would enable the retailer to meet all the necessary business expenses and yet leave him a margin of profit on his selling the goods at the Catalogue Price. The amount of Trade Discount allowed varies considerably according to different trades and even on different articles in the same trade.

In the books of the wholesale dealer, Trade Discount is deducted from the Outward Invoice sent to the retailer and the entry in the Sales Book is made of the net amount, because the actual amount realisable by him is the Catalogue Price *less* the Trade Discount. Similarly, in the books of the retailer, the entry in the Purchases Book is made of the net amount. i.e. the amount for which he is liable. Thus, Trade Discount as a rule does not appear in the books either of the seller or of the purchaser.

Cash Discount is an allowance in addition to the Trade Discount made by the seller to the purchaser, provided the latter settles his account promptly or within a specified time, known as the "Period of Credit". This allowance for the prompt payment of accounts may be either receivable or payable. It is received by the trader when he pays his account promptly or within the Period of Credit, and is allowed by him to his own customers in consideration of the prompt settlement of amounts due to him.

Q. 25. *How are entries made in the Cash Book transferred or posted into the Ledger?*

A. The postings from the debit or receipts side of the Cash Book would be to the credit of the various accounts concerned, and those from the credit or payments side of the Cash Book would be to the debit of the respective accounts in the Ledger.

While posting the entries from the receipts side of the Cash Book, care must be taken to post the actual cash received as also the Discount, if any, allowed to the credit of the Personal Account concerned. Similarly, while

posting the entries from the payments side of the Cash Book, if any Discount is received from the Creditor, the account of the latter should be debited not only with the actual cash paid but also with the Discount received from him

As the discount allowed by the trader to his customers represents a loss to him, the periodical total of the Discount Column on the receipts side of the Cash Book should be debited to the Discount Account in the Ledger Similarly, as the Discounts allowed to him by his creditors represent his gain, the periodical total of the Discount Column on the payments side of the Cash Book must be credited to the Discount Account

Q 26 *Under what circumstances does it become necessary to provide the Cash Book with additional Bank Columns?*

A Where the trader has a current account with a bank, he would naturally pay therein most of his cash receipts and would then make most of his payments by cheques drawn on such Bank Account Under such a circumstance, the form of Cash Book with only Discount and Cash columns on either side would be found to be cumbersome and unsuitable for the purpose A more elaborately ruled Cash Book would then have to be designed so as at once to serve the combined purpose of a Cash Account and a Bank Account, without in any way disturbing the principles of Double-Entry The rulings would, in this case, consist of Discount, Cash and Bank columns on either side

Note —As to how a considerable amount of saving in clerical labour is effected by the introduction of Bank columns in the Cash Book can best be seen by the following illustration, wherein cash and bank transactions are first entered in a Cash Book without Bank columns The same transactions are then again entered through a Cash Book with Discount, Cash and Bank columns, and the student would do well to make a comparative study of both these forms of Cash Book in order fully to appreciate the advantages of a Cash Book with Bank columns over the one without Bank columns

Q. 27. *Enter the following transactions in a Cash Book with Cash & Discount Columns only and show the Bank Account as it would appear in the Ledger*

1967		
March	1	Balance of Cash in hand Rs 2 000 and in Bank of India Ltd Rs 10 000
,	2	Received cash from D Chetty Rs 2 000 and allowed him discount Rs 60
	3	Paid into Bank of India Rs 3 500
„	4	Paid to S Govind & Co, by cheque Rs 520 in full settlement of their account for Rs 550
,	5	Received for Cash Sales Cash Rs 75 and cheque Rs 100
,	6	Paid into Bank of India Rs 620
	8	Paid for cash purchases by cheque Rs 845
„	9	Paid Bill Payable No 8 by cheque Rs 1 200
	11	Paid by cheque to V Valji Rs 525 in full settlement of Rs 540
,	12	Drew for office use Rs 500
,	13	Paid cash for advertisements Rs 45
,	14	*Discounted Bill Receivable No 7 of Rs 2,500 with Bank of India, the* Bank crediting Current Account with Rs 2 400
„	16	Paid cash for electric charges Rs 42

1967
March 17 Drew a cheque of Rs. 200 for personal use.
" 19 Paid February Salaries to Staff by cheque Rs. 750.
" 21 Paid by cheque for Office Safe Rs. 275.
" 23 Received from C. Parekh & Co., Rs. 875 in full settlement of their account for Rs. 900.
" 25 Paid into Bank of India Rs. 1,000.
" 26 Paid Cash for freight Rs. 55.
" 29 Paid rent for February by Cheque Rs. 175.
" 31 Received a cheque of Rs. 460 from Samuel & Co., in full settlement of their account for Rs. 480.

Note:—The Cash Book is given on page 20 for sake of convenience. The Bank Account which should follow the Cash Book, is given below.

A.

DR. THE BANK OF INDIA LTD. ACCOUNT CR.

Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
1967			Rs.	1967			Rs.
Mar. 1	To Balance b/d. ..		10,000	Mar. 4	By Cash ..	..	520
" 3	" Cash ..	..	3,500	" 8	" do. ..	..	845
" 6	" do. ..	..	620	" 9	" do. ..	..	1,200
" 14	" do. ..	..	2,400	" 11	" do. ..	..	525
" 25	" do. ..	..	1,000	" 12	" do. ..	..	500
				" 17	" do. ..	..	200
				" 19	" do. ..	..	750
				" 21	" do. ..	..	275
				" 29	" do. ..	..	175
				" 31	Balance c/d.	..	12 530
	Rs.		17,520		Rs.		17,520
Apr. 1	To Balance b/d. ..		12,530				

Note:—The student must study carefully how four distinct steps have to be taken to record the transaction each time that a payment is made by cheque. Two entries have to be made in the Cash Book, viz. one on the receipts side to record the fact of the amount being received from the Bank and the other on the payments side to record the fact that the payment has been made on some account. Then, again, both these entries will have to be posted, viz. one to the credit of the Bank Account and the other to the debit of the Account in respect of which the payment is made.

Now, in a business of any magnitude, all important payments will necessarily be made by means of cheques, and if in respect of every such payment four steps have to be taken to record the same, as above explained, the Account-keeping would be rendered highly cumbersome. It is to avoid this labour that in modern Book-keeping the Cash Book is so devised as to have not only Cash and Discount Columns but also a Bank Column on either side. The use of such a Cash Book at once obviates the necessity of opening a Bank Account in the Ledger and posting thereto all the transactions with the Bank, inasmuch as the Bank Columns, in this case, would serve the purpose of a Bank Account.

CASH BOOK WITH CASH AND DISCOUNT COLUMNS

Dr

Date	Particulars	Receipt No	Ledger Folio	Discount	Cash
1967				Rs	Rs
Mar 1	To Balance b d.				2 000
" 2	" D Chetty Received on Account			60	2 000
" 4	" Bank of India Ltd Cheque No to S Govind & Co				520
" 5	" Cash Sale Account For cash sales				175
" 8	" Bank of India Ltd Cheque No for purchases				845
" 9	" Bank of India Ltd Cheque No for B/P No 8				1,200
" 11	" Bank of India Ltd Cheque No for V Valji				525
" 12	" Bank of India Ltd Drew for Office use Cheque No				500
" 14	" *Bills Receivable Account* Bill No 7 Discounted			1 00	2,400
" 17	" Bank of India Ltd Cheque No for personal use				200
" 19	, Bank of India Ltd Cheque No for salaries				750
" 21	, Bank of India Ltd *Cheque No for Office Safe*				275
" 23	" C Parekh Received in full settlement			25	875
" 29	" Bank of India Ltd Cheque No for rent				175
" 31	" Samuel & Co Received cheque in full settlement			20	460
		Rs		205	12,900
1967 Apr 1	To Balance b/d				748

Cr

Date	Particulars	Voucher No	Ledger Folio	Discount	Cash
1967				Rs	Rs
Mar 3	By Bank of India Ltd Paid into Bank				3 500
, 4	, S Govind & Co Cheque in full settlement			30	520
" 6	" Bank of India Ltd Paid into Bank				620
, 8	" Cash Purchases Account For cash purchases				845
" 9	" Bills Payable Account Met B/P No				1,200
" 11	, V Valji Cheque in full settlement			15	525
" 13	" Advertisement Account For six insertions in ' Shorts" *Daily Mail*				45
" 14	" Bank of India Ltd For B/R No 7 discounted				2,400
" 15	" Electric Charges Account Electric charges for February				42
" 17	" Drawings Account Drawn for personal use				200
" 19	" Salaries Account To Staff for February				750
" 21	" Office Furniture Account Purchased Safe for Office use				275
" 25	" Bank of India Ltd Paid into Bank				1,000
" 26	" Freight Account Paid freight on goods				55
" 29	" Rent Account Rent for February				175
" 31	" Balance c/d				748
			Rs	45	12,900

NOTE —All cheques received must be treated as cash and entered in the cash column If, however, such cheques are paid into the bank the same day that they are received, and if the Cash Book is provided also with Bank columns, all cash or cheques received may be entered straight in the Bank column on the receipts side

Q. 28. *Enter the transactions given in the preceding question in a Cash Book with Cash and Bank Columns.*

Dr. CASH BOOK WITH CASH, BANK AND DISCOUNT COLUMNS Cr.

Date	Particulars	Receipt No.	L.F.	Discount	Cash	Bank
1967				Rs.	Rs.	Rs.
Mar. 1	To Balance b/d. ..				2,000	10,000
,, 2	,, D. Chetty Received *on account* ..			60	2,000	
,, 3	,, Cash Paid into Bank ..		C			3,500
,, 5	,, Cash Sales Received for Cash Sales ..				175	
,, 6	,, Cash Paid into Bank ..		C			620
,, 12	,, Bank of India Ltd. Drew for Office use ..		C		500	
,, 14	,, Bills Receivable Account B/R No. 7, discounted ..			100		2,400
,, 23	,, C. Parekh Received in full settlement ..			25	875	
,, 25	,, Cash Paid into Bank ..		C			1,000
,, 31	,, Samuel & Co. Received in full Settlement ..			20	460	
			Rs.	205	6,010	17,520
Apr. 1	To Balance b/d ..				748	12,530

Date	Particulars	Voucher No.	L.F.	Discount	Cash	Bank
1967				Rs.	Rs.	Rs.
Mar. 3	By Bank of India Ltd. Paid into Bank ..		C		3,500	
,, 4	,, S. Govind & Co. Cheque in full settlement ..			30		520
,, 6	,, Bank of India Ltd. Paid into Bank ..		C		620	
,, 8	,, Cash Purchases For Cash Purchases ..					845
,, 9	,, Bills Payable Account Met B/P. No. 8 ..					1,200
,, 11	,, V. Valji Cheque in full settlement ..			15		525
,, 12	,, Cash Drew for office use ..		C			500
,, 13	,, Advertisement Account For 3 insertions in "Shorts" *Daily Mall* ..				45	
,, 16	,, Electric Charges Account Electric charges for Feb. ..				42	
,, 17	,, Drawings Account For personal use ..					200
,, 19	,, Salaries Account To Staff for February ..					750
,, 21	,, Office Furniture Account Purchased Safe for Office use					275
,, 25	,, Bank of India Ltd. Paid into Bank ..		C		1,000	
,, 26	,, Freight Account Freight on goods ..				55	
,, 29	,, Rent Account—Rent for Feb. ..					175
,, 31	,, Balance c/d. ..				748	12,530
			Rs.	45	6,010	17,520

NOTE:—The items on the debit and credit sides against which the letter "C" appears in the Ledger Folio Column relate to transactions between Office Cash and Bank which need not be posted. Where the Cash Book is provided with Bank columns, it is not necessary to open a Bank Account in the Ledger, as the Bank columns serve that purpose. The letter "C" indicates that the contra effect of the transaction is recorded on the opposite side of the Cash Book.

Q 29 *Describe fully how a Cash Book with Cash and Bank Columns is written up*

A When a Cash Book possessing Bank Columns is in use, every time that a payment is made by cheque, the entry is made direct into the Bank Column on the credit side of the Cash Book, and it will then be necessary only to post the amount to the debit of the account in respect of which the payment is made There is no further entry needed on the receipts side of the Cash Book in this case and consequently no further posting

Whenever an amount is paid into the Bank, the same must be credited to Cash Account in the Cash Column to record the fact of cash having gone out The corresponding debit to Bank Account for the payment into the Bank would be given by entering the amount in the Bank Column on the debit side of the Cash Book, as this column represents the debit side of the Bank Account As no posting is necessary in respect of this transaction, the letter 'C is entered in the Folio Column against this entry on each side of the Cash Book to indicate that the contra effect of this transaction is recorded on the opposite side

When Cash is withdrawn from the Bank by a cheque for Office use, two entries would be needed to record this fact The credit to Bank Account is given by entering the amount in the Credit Bank Column, and the debit to Cash Account is effected by an entry in the Debit Cash Column No posting in the Ledger is needed for this transaction and the letter 'C" is, therefore, marked in the Folio Column against this entry on either side of the Cash Book

Whenever it is desired to ascertain what Bank Balance there is on any particular date, all that is necessary to do is to take the totals of the Bank Columns on the debit and credit sides of the Cash Book The amount by which the debit total is heavier than the credit represents the balance with the Bankers On the other hand, if the credit total is heavier, the excess would represent a liability in shape of Bank Overdraft It is thus clear that these Bank Columns serve the same purpose as a Bank Account in the Ledger and, therefore, no Bank Account need now be opened in the Ledger The balance of Cash in Office would be ascertained by adding up the Cash columns and striking the balance

Q 30 *Explain the use of Cash Book with Bank & Discount Columns only*

A A common practice in any well organised business is to pay intact all cash received into the Bank and to make all payments by cheques In a business of any magnitude, this method has been found to be safer and more expedient In such a case, it is not necessary to have Cash Columns at all in the Cash Book The Cash Book then need only have Bank and Discount Columns on either side

On receipt of Cash the date and particulars are entered in their appropriate columns and the amount is entered in the Bank column on the receipts

side. As each amount received is paid into the Bank, the Bank Account naturally gets the debit by the amount being placed in the Debit Bank Column. The only other thing necessary to complete the double-entry is to post the amounts to the credit of the accounts from which the moneys are received.

When payments are made, the date and particulars are entered in their appropriate columns, and the amounts are entered in the Bank column on the payments side. Since all payments are made by cheques, the Bank Account needs to be credited with these amounts, and this is brought about by entering them in the Bank column on the credit. The double entry of the payments side of the Cash Book would then be completed by posting each amount to the debit of the account concerned. As to the Discount Columns, these would be entered up and posted in just the same manner as already explained.

The Cash Book, in this case, becomes a pure Bank Cash Book containing only the payments into the Bank and the withdrawals therefrom by means of cheques. No Bank Account would then be opened in the Ledger as the Bank columns will take the place of the Bank Account.

Q. 31. *Enter the following transactions in a Cash Book with Bank and Discount Columns only, assuming that all receipts are banked and that all payments are made by cheques only.*

1964		
Feb.	1	Opened Bank Account with Rs 5,000
,,	4	Purchased goods for cash Rs 1,500
,,	8	Sold goods to T. Tilak & Co. for cash Rs 1,200.
,,	12	Received cheque from W Wagle Rs 378 in full settlement of Rs 400.
,,	14	Paid to H. Hamid & Co, Rs 325 and was allowed discount Rs 15
,,	15	Received commission from K Kanga Rs 221.
,,	16	Paid Travelling Expenses to J Jivraj Rs 35
,,	20	Received for cash sales Rs 225.
	22	Paid to S Shivaji for Office Furniture Rs 175
,,	25	Paid Electric charges Rs 25 for January
,,	27	Paid for Office Rent Rs 75 for month of January
,,	28	Drew cheque for personal use Rs 200
,,	29	Received from I. Ishwar Rs 225 and allowed him discount Rs 25
,,	,,	Drew cheque for Petty Cash Rs 150
,,	,,	Drew cheque for February Salaries Rs 375
,,	,,	Paid to N. Nathalal Rs 450 in full satisfaction of Rs 485.

(*For Answer, see page 24*)

Q. 32. *What is a Petty Cash Book?*

A. In a business where all receipts are banked and all payments are made by cheques, it becomes necessary to maintain a certain amount of cash in office to make numerous small payments on account of expenses which have to be made in course of each day. Besides, as these payments are of frequent occurrence and individually of small amounts, it would seem undesirable to burden the main Cash Book with entries in respect of such small and sundry items. A separate book termed the Petty Cash Book is thus maintained to record petty disbursements by way of Cartage, Cooly Hire, Clearing, Postages, Telegrams, Stationery, General Expenses, etc.

A. 31.

Dr CASH BOOK WITH DISCOUNT AND BANK COLUMNS Cr

Date	Particulars	L F	Discount	Bank	Date	Particulars	L F	Discount	Bank
1964			Rs	Rs	1964			Rs	Rs
Feb 1	To Capital Account Paid into Bank			5 000	Feb 4	By Purchases Account For goods purchased by Cheque No			1 500
" 8	" Sales Account Received for Cash Sales			1,200	" 14	" H Hamid & Co Paid on account by Cheque No		15	325
" 9	" W Wagle *Received in full settlement*		22	378	" 16	" Travelling Expenses Paid to J Jivraj by Cheque No			35
" 15	" Commission Account Received from K Kanga			221	" 22	" Furniture Account Paid to S Shivaji by Cheque No			175
" 20	" Sales Account Received for Cash Sales			225	" 25	" Electric Charges Account Paid January Bill by Cheque No			25
" 29	" I Ishwar Received on Account		25	225	" 28	" Office Rent Account For January by Cheque No			75
					" 28	" Drawings-Account For Personal use by Cheque No			200
					" 29	" Petty Cash Account Drew for petty cash by Cheque No			150
					" 29	" Salaries Account Paid for February by Cheque No			375
					" 29	" N Nathalal Paid in full satisfaction by Cheque No		25	460
					" 29	" Balance c/d			3 929
		Rs	47	7,249			Rs	40	7,249
Mar 1	To Balance b/d			3 929					

Q. 33. *What do you understand by Analytical or Columnar Petty Cash Book?*

A. The best method of recording Petty Cash payments is to enter them in a Petty Cash Book maintained in a columnar form, i.e. with a separate column for each usual head of expenditure and a column for the total. The advantage of a Columnar Petty Cash Book is that it saves an enormous amount of unnecessary labour resulting from posting each item of petty payment separately in the Ledger.

The Petty Cash Book is written just like the Cash Book, the amounts received by the Petty Cashier being entered on the debit side and the payments on the credit side. While entering the payments, the amounts are shown in the columns to which they relate as also in the total column. Every item of expenditure is shown in detail and is supported by a proper voucher. These vouchers are numbered in a seriatim order and their corresponding numbers are shown against the respective entries. The excess of the debit side over the credit on any date would represent the unspent balance of Petty Cash with the Petty Cashier.

By the use of this form of Petty Cash Book, the postings need not be made individually, but with the periodical total of each head of expenditure as shown by its corresponding column.

Q. 34. *Explain what you understand by the Imprest System of Petty Cash.*

A. The best method of maintaining petty cash is known as the Imprest System. Under this method, an amount estimated as necessary for the possible needs of the business to meet petty expenses for the week or the month is drawn by a cheque and handed over to the petty cashier. At the end of the fixed period, the Petty Cash Book after being totalled and balanced is presented by the Petty Cashier to the Cashier for a fresh cheque. The cashier after satisfying himself as to the correctness of the record, issues a cheque for the exact amount expended. The amount of this cheque together with the unspent balance will restore in the hands of the petty cashier the original sum with which he was started. This is called the Imprest System of Petty Cash.

The main advantage of this system lies in the fact that the cashier being responsible for drawing a cheque for the exact sum representing the total disbursements for a given period must necessarily examine the Petty Cash Book to make sure that the amount is correctly arrived at. Besides, the fact that at each periodical interval the Petty Cash Book has to be produced to the cashier for his inspection will in itself act as a healthy check on the petty cashier. Thus, a combination of the Imprest System of Petty Cash and the Analytical Petty Cash Book would help to regularise and facilitate the double-entry record of innumerable small and sundry disbursements.

Q 35 *Enter the following transactions in a Petty Cash Book with analytical columns The petty cashier is started with an imprest amount of Rs 100 on 1st January and is refunded the total amount of his disbursements at the end of the month —*

1967		
January	2	10 P stamps Rs 5
	5	For window cleaning Rs 2 50 P
		Wages to office cleaner Rs 10
	6	2 bundles of red tape Rs 0 50 P
	8	Fares to office clerks Rs 12 50 P
	10	6 dozen envelopes and letter papers Rs 1 50 P
		Printing charges and letter papers Rs 2
	12	1 Box paper fasteners Rs 0 50 P
	13	Taxi fare to manager Rs 1 25 P
	15	Telegram to Dawson & Co Delhi Rs 1 75 P
	17	Cartage and cooly on 4 cases Tea at Rs 0 25 P each
	18	1 bottle ink Rs 0 75 P
	20	Paid Patel & Co Rs 4 50 P
	24	Paid for shorts in Evening News Rs 11 50 P
	26	Sent registered notice to landlord Rs 0 25 P
	29	Polishing Office Table Rs 1 50 P
	30	Advertisement in Times of India Rs 20 75 P
	31	Railway Fare—manager to Poona Rs 12 50 P

(For Answer see page 27)

Q 36 *How is the Petty Cash Account recorded in the Ledger?*

A All cheques as are issued by the Cashier to the Petty Cashier are debited to the Petty Cash Account from the Cash Book in the first instance At periodical intervals the analysis of the petty expenses as indicated by the analytical columns of the Petty Cash Book is journalised, each nominal account concerned being debited with its respective total and the Petty Cash Account being credited with the total petty payments during the period The result is that after such journalising the balance as shown by the Petty Cash Account in the Ledger, at any periodical interval must necessarily agree with the unspent balance of Petty Cash with the petty cashier as indicated by the Petty Cash Book

Q 37 *What are Bills Receivable and Bills Payable?*

A For the purpose of recording Bill Transactions Bills are divided into Bills Receivable and Bills Payable

Bills Receivable are accepted Drafts in the possession of the trader for which he is to receive cash on the due dates

Bills Payable are Drafts accepted by the trader and for which he is liable to pay cash on due dates

It must be noted that the same Bill is a Bill Receivable to one party and a Bill Payable to the other party The person who is to receive money on it calls it his Bill Receivable, whereas the person who is liable to pay money for it knows it as his Bill Payable As Bills of Exchange represent money or money s worth they belong to the class of Real Accounts

A. 35.

DR. ANALYTICAL PETTY CASH BOOK CR.

Amount received	Date	Particulars	Voucher No.	Total Amount expended	Cartage & Cooly hire	Postage & Telegrams	Office expenses	Travelling expenses & fares	Printing & Stationery	Advertise-ments	L.F.	Ledger Account
Rs. P.	1967			Rs. P.	Rs. P.	Rs. P.	Rs. P.	Rs. P.	Rs. P.	Rs. P.		Rs. P.
100.00	Jan. 1	To Cheque received										
	„ 2	By 10 P. Stamps ..		5.00		5.00						
	„ 5	„ Window Cleaning ..		2.50			2.50					
	„ 5	„ Wages to Office Cleaner ..		10.00			10.00					
	„ 6	„ Bundle of Red Tape ..		0.50					0.50			
	„ 8	„ Fares to Office Clerks ..		12.50				12.50				
	„ 10	„ Envelopes & Letter Papers ..		1.50					1.50			
	„ 10	„ Printing Charges ..		2.00					2.00			
	„ 12	„ Paper Fasteners ..		0.50					0.50			
	„ 13	„ Taxi-fare to Manager ..		1.25				1.25				
	„ 15	„ Telegram to Delhi ..		1.75		1.75						
	„ 17	„ Cartage & Cooly Hire ..		1.00	1.00							
	„ 18	„ Bottle of Ink ..		0.75					0.75			
	„ 20	„ J. Patel & Co. ..		4.50								4.50
	„ 24	„ "Shorts" in *Evening News* ..		11.50						11.50		
	„ 26	„ Registered Notice to Landlord ..		0.25		0.25						
	„ 29	„ Polishing Office Table ..		1.50			1.50					
	„ 30	„ Advertisements in *Times* ..		20.75						20.75		
	„ 31	„ Manager's Railway Fare to Poona ..		12.50				12.50				
				90.25	1.00	7.00	14.00	26.25	5.25	32.25		4.50
		„ Balance c/d. ..		9.75								
100.00			Rs.	100.00								
9.75	Apr. 1	To Balance b/d. ..										
90.25	„ 1	„ Cheque received ..										

In order to avoid unnecessary labour in posting Bill Transactions are not passed through the Journal, but are entered in special Subsidiary Records provided for the purpose Thus there are the Bills Receivable and Bills Payable Books to record these transactions The object of these books is to form a convenient medium for a detailed record of each Bill received or given

Q 38 *Explain the use of Bills Receivable and Bills Payable Books*

A **Bills Receivable Book.**—On each Bill Receivable being received duly accepted full details thereof are entered in the appropriate columns of the Bills Receivable Book. Columns are also provided to indicate how each such Bill is finally disposed off

The postings from this book would be to credit each individual person *from whom the bill is received and to debit the monthly total to Bills Receiv* able Account in the Ledger The double entry of this book would thus be completed.

Bills Payable Book.—When a trader accepts a Bill drawn on him by his creditor it is payable by him at some future date and is therefore called his Bill Payable Each time that a Bill is thus accepted by a trader all the details thereof are entered in the Bills Payable Book Further entries are made in this book as and when each such Bill is finally disposed off

The postings from this book would be to debit each person to whom the bill is granted and to credit the periodical total to Bills Payable Account in the Ledger, thus completing the Double-Entry

Q 39 *Enter the following transactions in the Bills Receivable Book* —

March	1	Received from Javeri & Co acceptance at one month for Rs 400 payable at the Bank of India Ltd Bombay
	5	Received two months Bill for Rs 500 accepted by G Framroz payable at the Central Bank of India Ltd
	9	W Rao s acceptance at one month for Rs 475 payable at his office at 119 Hornby Road Fort
	15	C Aiyangar s acceptance at three months for Rs 680 payable at the Imperial Bank Bombay received from Lal & Sons
	20	Two months Bill drawn by P Wadia accepted by D Sen & Co for Rs 900 payable at the International Bank received from D Cawasji
April	4	Javeri & Co s acceptance realised Rs 400
	12	Received cash for W Rao s acceptance due today Rs 475
	20	Discounted acceptance of G Framroz receiving Rs 480
May	23	D Sen & Co s acceptance for Rs 900 dishonoured this day by non payment
	31	Endorsed C Aiyangar s acceptance for Rs 680 to W Wild & Co

(*For Answer see page* 29)

Q 40 *Enter the following transactions in the Bills Payable Book* —

A. 39.

BILLS RECEIVABLE BOOK

No. of Bill	Date received	Drawer	Acceptor	Received from	Payable at	Date of the Bill	Term	Due Date	L.F.	Amount	C.B. Folio	Remarks
										Rs.		
1	Mar. 1	Self	Javeri & Co.	Javeri & Co.	Bank of India, Bombay.	Mar. 1	1 month	Apr. 4		400		Met at Maturity.
2	" 5	"	G. Framroz	G. Framroz	Central Bank of India, Bombay.	" 5	2 months	May 8		500		Discounted on 20th April
3	" 9	"	W. Rao	W. Rao	119, Hornby Road, Fort, Bombay.	" 9	1 month	Apr. 12		475		Met at Maturity.
4	" 15	Lal & Sons	C. Aiyangar	Lal & Sons	Imperial Bank, Bombay.	" 15	3 months	June 18		680		Endorsed to W. Wild & Co., on 31st May. Dishonoured on Maturity.
5	" 20	P. Wadia	D. Sen & Co.	D. Cawasji	International Bank.	" 20	2 months	May 23		900		
									Rs.	2,955		

A. 40.

BILLS PAYABLE BOOK

No.	Date of Bill	To whom given	Drawer	Payee	Payable at	Term	Due Date	L.F.	Amount	C.B. Folio	Remarks
									Rs.		
1	Mar. 7	R. Warden	R. Warden	P. Meherji & Co.	Bank of India, Ltd., Bombay.	1 month	Apr. 10		750		Met by us on due date.
2	" 12	S. Ghosh & Co.	S. Ghosh & Co.	R. Rao	Bank of India, Ltd., Bombay.	3 months	June 15		450		
3	" 25	W. Smith & Son	W. Smith & Son	W. Smith & Son	Central Bank of India, Ltd.	2 months	May 28		500		
								Rs.	1,700		

March 7 Accepted R Warden's draft in favour of P Meherji & Co for Rs 750 at one month payable at the Bank of India Ltd Bombay
12 S Ghosh & Co drew on us at three months date for Rs 450 which draft we accepted payable to the order of R Rao at the Bank of India Ltd
25 Gave our acceptance for Rs 500 at two months to W Smith & Son payable to them at the Central Bank of India Ltd
April 10 Met our acceptance to R Warden Rs 750

(*For Answer see page 29*)

Q 41 *What items appear on the debit and credit sides of the Bills Receivable Account in the Ledger?*

A The total of the Bills Receivable Book is debited to Bills Receivable Account at periodical intervals

On a Bill Receivable being realised on due date, the amount is posted to the credit of the Bills Receivable Account from the Cash Book

When a Bill Receivable is discounted, the actual cash received and the discount allowed are credited to Bills Receivable Account from the receipts side of the Cash Book

When a Bill Receivable is endorsed over to a creditor in satisfaction of a debt owing to him the Journal entry necessary to record such a transaction would be to debit the Creditor's Account and credit Bills Receivable Account

When a Bill Receivable is dishonoured by non payment, the entry would be to debit the personal account of the party who had given the Bill and to credit the Bills Receivable Account

Q 42 *What balance would a Bills Receivable Account show and what would it signify?*

A The Bills Receivable Account is the account of an asset and the balance of this account, if any, would always be a debit balance The debit balance on the Bills Receivable Account on any date would represent Bills Receivable unmatured and on hand The Account will close when all the Bills are finally dealt with

Q 43 *What postings appear on the debit and credit sides of the Bills Payable Account?*

A The periodical total of the Bills Payable Book is credited to this Account On each Bill Payable being met, the Bills Payable Account is debited from the Cash Book The Bills Payable Account, representing as it does the liability of the trader in respect of the bills accepted by him, will always show a credit balance, if any The credit balance of this account on any one particular date must agree with the total amount worth of Bills Payable unmatured as ascertained from the Bills Payable Book

Q 44 *For what Purposes is Journal utilised in modern book-keeping?*

A. The use of Journal is very much restricted in modern accounting, and through this book are now passed only such transactions as cannot be conveniently recorded in any of the other books of Prime Entry.

Generally speaking, the use of the Journal proper is now confined to the record of the following transactions:—

1. Opening Entries;
2. Transfers from one account to another;
3. Rectification of Errors;
4. Adjusting Entries;
5. Closing Entries; i.e. transfers from the Nominal Accounts to the Profit and Loss Account;
6. Entries relating to Dishonour of Bills: and
7. Such other transactions for which there is no special book of Prime Entry, such as Consignment Transactions, Joint-Ventures, etc.

The double aspect of every transaction is given effect to in the Journal by the two money columns provided, the left-hand column being used for debit entries, and the right-hand for the credit. In order to make each entry self-explanatory, it is essential that a concise explanation giving the reasons for the entry should be appended to every entry. This is known as the narration, and the narration of a Journal entry is as important as the figures comprising it.

Accounts which are entered in the debit column are posted to the debit of the accounts concerned and those entered in the credit column are posted to the credit.

Note:—As the ruling of the Journal is so designed as to show the debit and credit effect of every transaction, students in examination are often asked to journalise all the transactions in a given business. This, however, is only a test of theory, and the student should not hesitate to pass all transactions through the Journal where so demanded in examination exercises. When, however, he is asked to enter a given series of transactions through their proper Subsidiary Books, only such entries as cannot be conveniently passed through any of the other books of prime entry should be journalised.

Q. 45. *Journalise the following transactions:—*

1. Paid by cheque for goods bought Rs. 300.
2. Received for goods sold Rs. 250.
3. Paid cash for Office Counters and Desks Rs. 400.
4. Received cheque from P. Atmaram Rs. 97 and allowed him discount Rs. 3.
5. Paid to E. Green by Cheque Rs. 490 and he allowed discount Rs. 10.

6 Bought Office Stationery for cash Rs 25
7 Bought goods from J Jones Rs 500
8 Sold goods to T Smith Rs 350
9 Received cheque from P Modi and paid same into Bank Rs 100
10 Drew cheque for personal use Rs 200
11 Paid Smith & Co cheque for Rs 280 which he accepted in full *settlement of his account for Rs 300*
12 Cash sales of the day amounted to Rs 150
13 Paid from office cash, Wages Rs 175
14 Drew from Bank for office cash Rs 200
15 Issued cheque to Petty Cashier Rs 125
16 Purchased postage stamps and paid from Petty Cash Rs 20
17 Paid salaries by cheque Rs 250
18 Paid T Sen cheque Rs 75 on account
19 Received cheque for Interest on Loan Rs 80
20 Paid into Bank Rs 500
21 Sold goods to R Swami who accepted our draft for Rs 400
22 Bought goods from C Smith and accepted his draft in return for Rs 275

A

JOURNAL ENTRIES

			L.F	Rs	Rs
1	Purchases Account	Dr		300	
	To Bank Account				300
	(For Cash Purchases)				
2	Cash Account	Dr		250	
	To Sales Account				250
	(For Cash Sales)				
3	Office Furniture Account	Dr		400	
	To Cash Account				400
	(For Office Counters and Desks bought)				
4	Cash Account	Dr		97	
	Discount Account			3	
	To P Atmaram				100
	(For Cheque received and discount allowed)				
5	E Green	Dr		500	
	To Bank Account				490
	„ Discount Account				10
	(Being Cheque given to and discount allowed by E Green)				
6	Printing & Stationery Account	Dr		25	
	To Cash Account				25
	(For Cash purchases of Stationery)				
7	Purchases Account	Dr		500	
	To J Jones				500
	(For Goods bought as per Inward Invoice No)				

JOURNAL ENTRIES—*contd.*

		L.F.	Rs.	Rs.
8.	T. Smith .. .. Dr. To Sales Account (For goods sold as per Outward Invoice No.......)		350	350
9.	Bank Account .. .. Dr. To P. Mody (For Cheque received and banked.)		100	100
10.	Drawings Account .. .. Dr. To Bank Account (For Cheque drawn for personal use.)		200	200
11.	Smith & Co. .. .. Dr. To Bank Account „ Discount Account (For Cheque paid and discount allowed by them.)		300	280 20
12.	Cash Account .. .. Dr. To Sales Account (For Cash sales)		150	150
13.	Wages Account .. .. Dr. To Cash (For wages paid.)		175	175
14.	Cash Account .. .. Dr. To Bank Account (For Cash withdrawn for Office use.)		200	200
15.	Petty Cash Account .. .. .. Dr. To Bank Account (For Cheque given to Petty Cashier.)		125	125
16.	Postages Account .. .. Dr. To Petty Cash Account (For Stamps paid from Petty Cash.)		20	20
17.	Salaries Account .. .. Dr. To Bank Account (For Salaries paid by cheque.)		250	250
18.	T. Sen .. .. Dr. To Bank (For Cheque given on account.)		75	75
19.	Cash Account .. .. Dr. To Interest Account (For Cheque received for Interest on Loan.)		80	80
20.	Bank Account .. .. Dr. To Cash Account (For amount banked.)		500	500
21.	Bills Receivable Account .. .. .. Dr. To Sales Account (For goods sold in return for B/R. duly accepted by R. Swami.)		400	400
22.	Purchases Account .. .. Dr. To Bills Payable Account (For giving our acceptance to C. Smith in return for goods bought.)		275	275

Q 46 *Journalise the following transactions in a business where all cash received is banked intact and all payments above Rs 25 are made by cheques*

1967		L.F	Dr Rs	Cr Rs
Jan 1	Opening Balances —			
	Cash at Bank		1 400	
	Petty Cash		110	
	K. Cooper		475	
	C Row		600	
	P Butler		400	
	Stock in Trade		4 000	
	Office Furniture		700	
	To Mehta and Co			1 200
	„ P N Joshi			800
	„ Capital Account			5 685
		Rs	7 685	7 685

1967		Rs
January 3	Paid cheque to Mehta & Co in settlement of their account	1 175
4	Sold goods to Gandhi & Co	750
5	Received cash from K Cooper in full settlement	450
6	Received cheque from P Butler in settlement of account	385
„ 7	Bought goods from Radha & Co	175
8	Sold goods to R Spencer	200
9	Sent credit note to him for goods soiled	20
	Purchased goods from Porter & Co	700
10	Sent Debit Note to Porter & Co for short weight	25
11	Paid P N Joshi by cheque Rs 780 in full settlement of his account	
13	Drew for personal use	100
15	Received cash from Gandhi & Co in full settlement	720
17	Received cash from R Spencer	100
18	Sent cheque to Radha & Co in settlement	160
20	Paid salaries to staff	450
25	Sent landlord cheque for office rent	200
27	Paid for cash purchase of stationery from Vasi & Co	75
28	Gave cheque for club fees	50
29	Sold old office furniture and received cheque	40

A

JOURNAL ENTRIES

1967		L.F	Dr Rs	Cr Rs
Jan. 1	Bank Account		1 400	
	Petty Cash Account		110	
	Stock in Trade		4 000	
	Office Furniture		700	
	K. Cooper		475	
	C. Row		600	
	P Butler		400	
	To Mehta & Co			1 200
	„ P N Joshi			800
	„ Capital Account			5 685
	(Being the opening Assets and Liabilities brought over from the previous year)			
		Rs	7 685	7 685

JOURNAL ENTRIES—*contd.*

1967			L.F.	Rs.	Rs.
Jan.	3	Mehta & Co. .. .. Dr.		1,200	
		To Bank Account			1,175
		„ Discount Account			25
		(For cheque paid in full settlement of account.)			
„	4	Gandhi & Co. .. .. Dr.		750	
		To Sales Account			750
		(For goods sold as per our Outward Invoice No.—.)			
„	5	Bank Account .. .. Dr.		450	
		Discount Account .. .. „		25	
		To K. Cooper			475
		(For Cash received in full Settlement.)			
„	6	Bank Account .. .. Dr.		385	
		Discount Account .. .. „		15	
		To P. Butler			400
		(For cheque received in full settlement.)			
„	7	Purchases Account .. .. Dr.		175	
		To Radha & Co.			175
		(For goods bought as per Inward Invoice No.—.)			
„	8	R. Spencer .. .. Dr.		200	
		To Sales Account			200
		(For goods sold as per our Outward Invoice No.—.)			
„	9	Allowance Account .. .. Dr.		20	
		To R. Spencer			20
		(For Credit Note No.——sent to him for goods soiled.)			
„	„	Purchases Account .. .. Dr.		700	
		To Porter & Co.			700
		(For goods bought as per Inward Invoice No.——)			
„	10	Porter & Co. .. .. Dr.		25	
		To Allowance Account			25
		(For Debit Note sent for shortweight.)			
„	11	P. N. Joshi .. .. Dr.		800	
		To Bank Account			780
		„ Discount Account			20
		(For cheque paid in full settlement.)			
„	13	Drawings Account .. .. Dr.		100	
		To Bank Account			100
		(For cheque drawn for personal use.)			
„	15	Bank Account .. .. Dr.		720	
		Discount Account .. .. „		30	
		To Gandhi & Co.			750
		(For Cash received in full settlement.)			
„	17	Bank Account .. .. Dr.		100	
		To R. Spencer			100
		(For Cash received on account.)			
„	18	Radha & Co. .. .. Dr.		175	
		To Bank Account			160
		„ Discount Account			15
		(For cheque sent in full settlement.)			

JOURNAL ENTRIES—*contd*

1967			L.F.	Rs	Rs.
Jan. 20	Salaries Account To Bank Account (For salaries for the month of——paid.)	Dr		450	450
„ 25	Office Rent Account To Bank (For rent paid.)	Dr		200	200
„ 27	Printing & Stationery Account To Bank Account (Being Stationery bill paid.)	Dr		75	75
„ 28	Drawings Account To Bank Account (For Club Fees paid.)	Dr		50	50
„ 29	Bank Account To Office Furniture Account (For cheque received for old Office Furniture sold.)	Dr		40	40

Q 47 *Journalise the following transactions —*

1967			Rs
July	1	Drew from Bank for Petty Cash	105
	2	Purchased from Jadhav & Co goods	800
„	3	Accepted Jadhav & Co's draft on us	800
„	4	Sold goods to D Davar	450
„	5	Drew on him for the amount	450
„	6	Sold goods for cash, which sum was paid into Bank on the same day	150
„	9	Sold goods to P Pawar and drew on him at three months from this date for a like amount	300
„	10	Returned to Jadhav & Co soiled goods invoiced at	80
„	12	Discounted with Bank D Davar's acceptance for Rs 450 and was charged discount Rs 20	
„	15	Paid E. Green cheque in settlement of his account for Rs 320	300
„	17	Our acceptance was met by Bank this date	400
„	20	Endorsed P Pawar's acceptance to J Roberts	300
„	22	Paid into Bank from Office Cash	475
„	23	Sold goods for cash	225
„	25	Made cash purchases and paid by cheque	200
„	26	Drew from office cash for self	150
„	27	Handed to Red & Co our acceptance at 2 months	175
„	28	Sold goods to R. Jairam	100
„	29	Received goods returned from R. Jairam and sent him Credit Note	25
„	30	Bought goods from P Smith and gave our acceptance for the amount	175
„	31	Returned goods (not up to sample) to P Smith and sent him Debit Note	50

A. JOURNAL ENTRIES

1967			L.F.	Rs.	Rs.
July	1	Petty Cash Account .. .. Dr.		105	
		To Bank Account			105
		(For cheque drawn for petty cash.)			
„	2	Purchases Account .. .. Dr.		800	
		To Jadhav & Co.			800
		(For goods bought as per Inward Invoice No.......)			
„	3	Jadhav & Co. .. .. Dr.		800	
		To Bills Payable Account			800
		(For their draft accepted.)			
„	4	D. Davar .. .. Dr.		450	450
		To Sales Account			
		(For goods sold as per Outward Invoice No.......)			
„	5	Bills Receivable Account .. .. .. Dr.		450	
		To D. Davar			450
		(For his acceptance received.)			
„	6	Bank Account .. .. Dr.		150	
		To Sales Account			150
		(For cash sales.)			
„	9	Bills Receivable Account .. .. .. Dr.		300	
		To Sales Account			300
		(For goods sold to P. Pawar in return for his acceptance of our draft.)			
„	10	Jadhav & Co. .. .. Dr.		80	
		To Returns Outwards Account			80
		(For our Debit Note No,..for soiled goods returned.)			
„	12	Bank Account .. .. Dr.		430	
		Discount Account .. .. „		20	
		To Bills Receivable Account			450
		(For D. Davar's acceptance discounted.)			
„	15	E. Green .. .. Dr.		320	
		To Bank Account			300
		„ Discount Account			20
		(For cheque given to E. Green in full settlement.)			
„	17	Bills Payable Account .. .. .. Dr.		400	
		To Bank Account			400
		(For our acceptance duly met at Bank.)			
„	20	J. Roberts .. .. Dr.		300	
		To Bills Receivable Account			300
		(For P. Pawar's acceptance endorsed over.)			
„	22	Bank Account .. .. Dr.		475	
		To Cash Account			475
		(For cash paid into Bank.)			
„	23	Cash Account . .. . Dr.		225	
		To Sales Account			225
		(For Cash Sales.)			
„	25	Purchases Account .. .. Dr.		200	
		To Bank Account			200
		(For Purchases by Cheque.)			

JOURNAL ENTRIES—*contd*

1967			L.F	Rs	Rs
July 26	Drawings Account To Cash Account (For drawings from Cash)	Dr		150	150
„ 27	Red & Co To Bills Payable Account (For Red & Co s draft accepted)	Dr		175	175
„ 28	R Jairam To Sales Account (For Goods sold as per our Outward Invoice No)	Dr		100	100
„ 29	Return Inwards Account To R Jairam (For Goods returned to us as per our Credit Note No)	Dr		25	25
„ 30	Purchases Account To Bills Payable Account (For Goods purchased in return for P Smith s draft accepted by us)	Dr		175	175
„ 31	P Smith To Returns Outwards Account (For Goods not according to the sample returned by us as per our Debit Note No)	Dr		50	50

Q 48 *Journalise the following transactions —*

		Rs
1	Paid by cheque A. Smith's Bill for repairs to Plant	1,275
2	Received from Wimbridge & Co, their invoice for Office Furniture supplied	900
3	Sent our cheque in payment of the above invoice	900
4	Paid by cheque Fire Insurance Premium	45
5	Received cheque from Govind & Co, in full settlement of their account for Rs 375	360
6	*Drew cheque for Petty Disbursements*	90
7	Bill payable due this day met at Bank	800
8	Gave to E Green our acceptance at 2 months	400
9	W Peter paid by cheque on account	200
10	Received from Gangaram & Co, their acceptance of draft of	750
11	C Bapu returned us part of his purchase Sent him a Credit Note	75
12	Sold goods to A Jiwan for cash	100
13	Accepted Y's Bill of Exchange at 4 months	400
14	Sent Debit Note to P Pavri for goods damaged	40
15	Returned goods to C Row not upto sample	125
16	Chotani & Co drew on us at three months and the bill was duly accepted	350

	Rs.
17. Discounted at Bank B/R. No. 5 Rs. 500 proceeds realised ..	475
18. Bank retired firm's bill for	400
19. Sold goods to W. Walker and he endorsed his B/R. to us ..	225
20. Bank returned C. Row's cheque unpaid	135
21. Gave cheque for purchase of plant from Dickson & Co. ..	1,275
22. Firm's acceptance No. 10 paid by Bank	500
23. Paid into Bank from office cash	200
24. Paid for stationery from office cash	37
25. Drew cheque for office use	350
26. Paid salaries by cash	475
27. Received cheque for commission due to us	150
28. Bank realised interest on our Securities	180
29. Received cheque from Row & Co. to be credited to R. Sen's account	200
30. Issued cheque for Petty Cash	122
31. The following Petty Cash Book analysis was brought into record:	

	Rs.
Postage	15
Printing and Stationery ..	25
Cartage and Cooly	17
Travelling Expenses	35
Advertisement	30

32. Borrowed from R. Jairam and paid same into the Bank ..	4,000
33. P. Santaram paid into our Banking Account in settlement of his account	300
34. Bank returned Santaram's cheque unpaid	300
35. Sold goods to D. Rajan and drew on him at 2 months for the amount	155
36. Bought goods from R. Hari, accepted his bill for Rs. 400 and gave him cheque Rs. 100	500
37. Gave cheque for House-keeping	450
38. Paid Club Bill from Office Cash	45
39. Returned goods to Jaikar & Co.	50
40. Smart & Co. returned us goods along with Debit Note ..	60
41. Made an allowance in price to Ramlal & Co. for damage due to faulty packing	70

A. JOURNAL ENTRIES

			L.F	Rs	Rs.
1	Plant Repairs Account To Bank Account (For A. Smith's Bill paid.)	Dr		1,275	1,275
2	Office Furniture Account To Wimbridge & Co (For their Invoice No for Office Furniture purchased.)	Dr		900	900
3	Wimbridge & Co To Bank Account (For cheque paid)	Dr		900	900
4	Fire Insurance Account To Bank Account (For Fire Insurance Premium paid by cheque.)	Dr		45	45
5	Cash Account *Discount Account* To Govind & Co (For cheque received in full settlement.)	Dr "		360 *15*	375
6	Petty Cash Account To Bank Account (For cheque drawn for Petty Cash.)	Dr		90	90
7	Bills Payable Account To Bank Account (For our acceptance met at Bank.)	Dr		800	800
8	E. Green To Bills Payable Account (For E. Green's draft accepted.)	Dr		400	400
9	Cash Account To W Peter (For cheque received on account.)	Dr		200	200
10	Bills Receivable Account To Gangaram & Co (For our draft accepted.)	Dr		750	750
11	Returns Inwards Account To C. Bapu (For Returns Inwards as per Credit Note No)	Dr		75	75
12	Cash Account To Sales Account (For Cash Sale.)	Dr		100	100
13	Y To Bills Payable Account (For Y's draft at 4 months accepted.)	Dr		400	400
14	P Pavri To Allowance Account (For our Debit Note No for goods damaged.)	Dr		40	40
15	C. Row To Returns Outwards (For our Debit Note No for goods not up to sample returned.)	Dr		125	125

JOURNAL ENTRIES—*contd.*

			L.F.	Rs.	Rs.
16	Chotalal & Co.	Dr.		350	
	To Bills Payable Account				350
	(For their draft accepted.)				
17	Bank Account	Dr.		475	
	Discount Account	"		25	
	To Bills Receivable Account				500
	(For B/R No. 5 discounted)				
18	Bills Payable Account	Dr.		400	
	To Bank Account				400
	(For our acceptance retired by Bank.)				
19	Bills Receivable Account	Dr.		225	
	To Sales Account				225
	(For Goods sold in return for W. Walker's B/R endorsed over to us.)				
20	C. Row	Dr.		135	
	To Bank Account				135
	(For cheque returned unpaid.)				
21	Plant and Machinery Account	Dr.		1,275	
	To Bank Account				1,275
	(For cheque paid for Dickson & Co.'s Invoice for Plant.)				
22	Bills Payable Account	Dr.		500	
	To Bank Account				500
	(For our acceptance met at Bank.)				
23	Bank Account	Dr.		200	
	To Cash Account				200
	(For Cash paid into Bank.)				
24	Printing and Stationery Account . .	Dr		37	
	To Cash Account				37
	(For stationery purchased)				
25	Cash Account	Dr.		350	
	To Bank Account				350
	(For cash withdrawn for Office use.)				
26	Salaries Account	Dr.		475	
	To Cash Account				475
	(For salaries paid.)				
27	Cash Account	Dr.		150	
	To Commission Account				150
	(For commission received by cheque.)				
28	Bank Account	Dr		180	
	To Interest Account				180
	(For Interest on Securities realised by Bank)				
29	Cash Account	Dr.		200	
	To R. Sen				200
	(For cheque received from Row & Co., on R. Sen's Account.)				
30	Petty Cash Account	Dr		122	
	To Bank Account				122
	(For cheque issued for petty cash)				

JOURNAL ENTRIES—*contd.*

			L F	Rs	Rs
31	Postage Account Printing and Stationery Account Cartage and Cooly Hire Travelling Expenses Advertisement To Petty Cash Account (For Petty disbursements out of petty cash)	Dr ,		15 25 17 35 30	 122
32	Bank Account To R Jairam s Loan Account (For Loan taken from him and the amount banked)	Dr		4 000	 4 000
33	Bank Account To P Santaram (For amount paid by him into our Banking Account)	Dr		300	 300
34	P Santaram To Bank Account (For his cheque returned unpaid)	Dr		300	 300
35	Bills Receivable Account To Sales Account (For goods sold in return for D Rajan s acceptance)	Dr		155	 155
36	Purchases Account To Bills Payable Account Bank Account (For goods brought from R Hari in return for B/P for Rs 400 and cheque for Rs 100)	Dr		500	 400 100
37	Drawings Account To Bank Account (For cheque given for house keeping)	Dr		450	 450
38	Drawings Account To Cash Account (For club bill paid)	Dr		45	 45
39	Jaikar & Co To Returns Outwards Account (For goods returned by us as per our Debit Note No)	Dr		50	 50
40	Returns Inwards Account To Smart & Co (For goods returned by them as per our Credit Note No)	Dr		60	 60
41	Allowance Account To Ramlal & Co (For allowance for damage as per our Credit Note No)	Dr		70	 70

Q 49 *What is a Ledger, and what purpose does it fulfil?*

A Although the Ledger is not a book of Original Entry it forms an indispensable record in accounting inasmuch as it is in this book that all the transactions, which are in the first instance entered up in the subsidiary books

to which they relate are subsequently posted to their appropriate accounts in a classified and well-arranged form. It thus becomes an all-important book to which the trader must always refer for information regarding any of his business transactions or group of transactions.

Q. 50. *While transferring the Entries from the Subsidiary Records into the Ledger, what are the rules for debiting and crediting the Accounts? What purposes do the different classes of Accounts serve?*

A. While transferring the entries from the Subsidiary Records into the Ledger, the following rules should be rigidly followed:—

Personal Accounts:—Debit the account of the person that receives and credit the account of the person that gives.

Real Accounts.—Debit the assets received and credit the assets parted with.

Nominal Accounts.—Debit all expenses or losses and credit all gains.

From the above rules, it equally follows that:—

(a) Every Asset Account has a debit balance.

(b) Every Liability Account has a credit balance.

(c) All Expenses or Losses are always debit balances.

(d) All Gains are always credit balances.

Whereas the Personal Accounts would record the aspect of the transactions as they affect the persons with whom the dealings take place, the Real and Nominal Accounts would record the aspect of the transactions as they affect the things dealt in and the services received or imparted. A glance at any Personal Account would serve to indicate whether that person is a debtor or a creditor of the dealer on any given date and how that ultimate position is brought about. Similarly, a reference to the Goods Account or the sub-sections thereof, viz. the Purchases Account, the Sales Account, etc. would inform the dealer as to his dealings in goods, whereas the account of each other asset would help to disclose its respective incomings and outgoings and the balance on hand, from day to day. The various nominal accounts would serve to indicate the several heads of expenditure and the sources of income.

Q. 51. *How are the various Ledger Accounts closed at the end of each trading period?*

A. At the end of each financial period, a Trading and Profit and Loss Account and a Balance Sheet are prepared in order to ascertain the trading results, and the information as conveyed by these Ledger Accounts would

form the necessary material for the construction of these statements The various accounts would then be dealt with as under —

1 The accounts appertaining to dealings in goods would be collected under one account styled the Trading Account and would be closed by transfer to the Trading Account

2 The Nominal Accounts revealing the different heads of expenditure and income would be grouped together in another account called the Profit and Loss Account and would be closed by transfer to this account

3 All other accounts then left out would mean either assets or liabilities of the business and these would be collected in yet another statement known as the Balance Sheet All such accounts would be closed by balance, and would be carried forward to next year's books

Q. 52. *While opening the several accounts in the Ledger, is any arrangement desirable?*

A. In order that the desired information may be secured from the Ledger without any fumbling and delay, it is essential that these various accounts be arranged and grouped together in some intelligent manner Thus, the accounts of customers should be opened in one section of the Ledger, and similarly the accounts of the suppliers The asset accounts should also be grouped together and the nominal accounts should form a different section of the Ledger

Q. 53. *What do you understand by sub-divisions of the Ledger and when and how should this be done?*

A. In a small concern, it would not be difficult to accommodate the whole of the transactions of the business in one Ledger When, however, the transactions become voluminous, the Ledger will have to be sub-divided and the sub-division may take the following shape Thus, there may be—

(a) A **Customer's Ledger** or Sales Ledger to accommodate the accounts of customers only,

(b) A **Suppliers' Ledger** or Purchases Ledger to contain accounts of suppliers of goods,

(c) An **Impersonal Ledger** or a Nominal or General Ledger which would include all account other than those of customers and suppliers, and

(d) Sometimes, there is also maintained a **Private Ledger** in which would be embodied accounts of a private nature, such as accounts of loans borrowed, Capital Account, etc and this Ledger would be kept and written up by the proprietor.

When the business assumes still larger proportions, one Customers' Ledger may not suffice and it may then be found necessary to further sub-

divide the Customers' Ledger either alphabetically, topographically or departmentally. Thus, there might be one Sales Ledger containing accounts of customers whose names begin with A to M, and another one for names commencing from N to Z. Similarly, the Sales Ledger may be sub-divided to contain accounts of customers of different districts or localities, or the sub-division may take the shape of a separate Sales Ledger for each department of the business. The sub-division of the Bought Ledger may also be done on similar lines, if need be. The classification of Ledger Accounts as also the sub-division of Ledgers will always have to be done with due regard to the nature and requirements of the business.

Q. 54. *Explain fully what you understand by a Trial Balance.*

A. The fundamental principle of Double-Entry is that **'for every debit there must be a corresponding credit.'** Now, in course of posting the entries from the various Subsidiary Records into the Ledger, if it is seen that for every debit entry that is given to an account or for every series of debits given to several accounts, there is a credit or series of credits of an equal amount given to some other accounts and *vice versa*, then it follows that the sum total of the debit entries should equal the sum total of the credit entries. It is important to note, in this connection, that although by the use of the Subsidiary Journals, the work of posting the entries into the Ledger is reduced practically by half, the above basic principle of Double-Entry is fully maintained inasmuch as the debit and credits are equalised in the aggregate.

When, therefore, all the transactions for a particular period have been duly entered in the books and properly posted, the book-keeper will need **to try** whether he has correctly transferred all the entries from the Original Records into the Ledger. With this object in view, he will prepare a **Trial Balance**, i.e., a list of Balances debit or credit standing in the books at any given date. A Trial Balance may thus be defined as a statement of debit and credit balances extracted from the Ledger, with a view to test the arithmetical accuracy of the books. It thus forms a connecting link between the Ledger Accounts and the Final Accounts.

The agreement of the Trial Balance provides a very useful check upon the Ledger postings. As a matter of fact, it proves two things, viz.:

1. That both the aspects of each transaction have been recorded, and
2. That the books are arithmetically accurate.

Should the Trial Balance disagree, it reveals the presence of errors which must be found and rectified.

Q. 55. *How is a Trial Balance prepared?*

A. A Trial Balance is usually prepared on loose sheets ruled in a form similar to that of the Journal, i.e. with debit and credit money columns. The debit and credit sides of each Ledger Account would be totalled up as at the

date of the Trial Balance in order to ascertain whether there is any balance and, if so whether such balance is a debit or credit balance The balance of each such account would then be entered in the Trial Balance The date column is used for entering the folio or page of the Ledger on which the account appears All debit balances are entered in the debit (left hand) column and the credit balances in the credit (right-hand) column If the books are arithmetically accurate, the total of the debit balances must agree with that of the credit balances

An important point to be borne in mind in the preparation of the Trial Balance is to include the Cash Balance and the Bank Balance as indicated by the Cash and Bank columns of the Cash Book The reason is that these columns represent Cash and Bank Accounts and it is only for convenience that cash transactions are recorded in a separate book instead of being entered in shape of Ledger Accounts

Q 56 *Prepare a Trial Balance from the following figures* —

	Rs		Rs
Sundry Debtors	25 000	Bills Receivable	3 200
Creditors	30 000	Bills Payable	5 000
Salaries	7 500	Bank Charges	75
Sales	90 000	Travelling Expenses	475
Trade Expenses	750	Advertising	2 100
Rent and Taxes	2 500	Repairs to Plant	1 640
Freehold Building	55 000	Loan from Bank	20 000
Purchases	27 500	C Raju s Capital Account	75 890
Plant and Machinery	40 000	C Raju s Drawings Account	4 800
Furniture and Fixtures	1 500	Cash at Bank	3 000
Sales Return	1,200	Cash at Office	500
Purchases Returns	800	Balance of Petty Cash	50
Opening Stock	30 000	Wages	15 900
Discount Account (Dr)	1 000	Commission earned	3 700
Insurance	700	Interest paid on Loan	600

A

TRIAL BALANCE

	Dr Rs	Cr Rs
Sundry Debtors	25 000	
Do Creditors		30 000
Salaries	7 500	
Sales		90 000
Trade Expenses	750	
Rent and Taxes	2 500	
Freehold Building	55 000	
Purchases	27 500	
Plant and Machinery	40 000	
Furniture and Fixtures	1 500	
Sales Returns	1 200	
Purchases Returns		800
Opening Stock	30 000	
Discount Account (Dr)	1 000	
Insurance	700	
Bills Receivable	3 200	
Bills Payable		5 000
Bank Charges	75	
Travelling Expenses	475	
Advertising	2 100	
Repairs to Plant	1 640	

TRIAL BALANCE—*contd.*

	Dr. Rs.	Cr. Rs.
Loan from Bank		20,000
C. Raju's Capital Account		75,890
Do. Drawings Account	4,800	
Cash at Bank	3,400	
Do. at Office	500	
Balance of Petty Cash	50	
Wages	15,900	
Commission earned		3,700
Interest paid on Loan	600	
Rs.	2,25,390	2,25,390

Q. 57. *What Errors does a Trial Balance fail to disclose?*

A. The following errors will remain undetected and will not affect the agreement of the Trial Balance:—

1. Errors of Omission.
2. Wrong Entries in any Original Record.
3. Errors of Principle.
4. Compensating Errors.
5. Posting to Wrong Heads of Accounts.

Q. 58. *Explain Errors of Omission, Errors of Principle and Compensating Errors.*

A. **Errors of Omission:**—An Error of Omission is one where a transaction has been absolutely omitted to be recorded, i.e., a Credit Purchase omitted to be recorded in the Purchases Book or an item of Return Inwards omitted to be recorded in the Returns Inwards Book.

Errors of Principle:—An Error of Principle is one where a transaction is recorded in total disregard of the fundamental principles of Double-Entry. Thus, a purchase of Plant and Machinery may have been wrongly passed through the Purchases Book or Repairs to Building may have been wrongly debited to Building Account.

Compensating Errors:—A Compensating Error in Account-keeping is an error on one side of an account which is balanced by an error or a series of errors in the aggregate of the same value, in opposite direction. Thus, if the Purchases Book is undercast by Rs. 100 and the Sales Book is also undercast to the extent of the same amount, this will not affect the agreement of the Trial Balance.

Q. 59. *What Errors does a Trial Balance help to detect?*

A. The agreement of the Trial Balance will be affected by the presence of any of the following errors:—

1 Omission to post an entry from any Subsidiary Record

2 Posting a wrong amount to a Ledger Account

3 Posting an amount on the wrong side of a Ledger Account

4 Errors in casting Subsidiary Records or Ledger Accounts

5 Errors in balancing any Ledger Accounts

6 Omission of a balance of any Account in the Trial Balance

Q 60 *If a Trial Balance disagrees, how would you proceed to localise Errors?*

A Where a Trial Balance disagrees and the difference is of an appreciably large amount as would materially affect the final accounts, it would never be safe to allow errors to remain undetected Even where the difference is of a small amount, it may be the outcome of several grave errors of a compensating nature and it would follow, therefore, that all possible efforts must be expended to localise the cause of the difference before preparation of the final accounts

Assuming that the Trial Balance disagrees, the following hints as to the steps to be taken to localise errors is sure to prove helpful —

1 Re-check the totals of the Trial Balance including the lists of Debtors and Creditors and ascertain the exact amount of the difference

2 See that the inclusion of Cash or Bank Balance is not omitted

3 Check the extraction of balances of the Personal and Impersonal Accounts and their transfer into the Trial Balance to see that the amounts are entered in the right columns

4. Halve the amount of the difference to see if there is any balance of the same amount in the Trial Balance It may be that the balance is entered in the wrong column of the Trial Balance, thus causing a difference of double the amount

5 If the difference is of a large amount, it would not be a bad plan to compare the Trial Balance with that of the previous year, in order to ascertain whether the figures under the different heads of accounts are very near the same as those of the previous year, and whether their balances fall on the same side of the Trial Balance

6 Very often, the amount of the difference will indicate the nature of the errors If the difference is in round sum, it is probable that the mistake has been made in castings or in carry forwards If it is in Rupees and Paise it is very likely an error or errors in posting or in extracting balances

7 The question as to on which side the difference falls will also help towards the localising of the errors For instance, if the debits exceed the credits, the receipts side of the Cash Book and the credits from the Journals

should be gone through for unposted items. If the difference is the other way about, the payments side of the Cash Book and the debits from the Journals should be scanned for unposted items. It may be that an amount exactly equalling the difference has been left off unposted.

8. If the difference happens to be of an amount which constantly recurs in the books, all postings of this amount may be checked to advantage.

9. Glance through the Subsidiary Records to trace unposted items and check the carry forwards, at the same time scrutinising badly written and indistinct figures.

10. Check the postings of the periodical totals of the Subsidiary Books into the Ledger.

11. It should be seen that the opening balances have been correctly brought forward in the current year's books.

12. The Journal should be scanned to see that the total debits and credits of each entry tally.

13. The totals of the Sales, the Purchases and other Subsidiary Books should next be checked.

14. If all these tests fail to localise the difference, a full re-check of the postings and the additions of Ledger Accounts would be necessitated. It would, however, be advisable to re-check the postings and additions of the Impersonal Accounts first before resorting to the Personal Accounts.

15. If the Ledgers are self-balancing, the work would be restricted to checking the balances, postings and casts of only that Ledger whose Trial Balance does not agree.

It may be pointed out that the above steps indicate a general outline of procedure as proved by experience to be most helpful and need not necessarily be followed in regular order in each case. Those acquainted with the books must know best the weak spots of their work and it must be left to them to formulate the plan of action. The location of clerical errors sometimes proves to be a most difficult task, but at the same time it is not impossible of performance provided the search is conducted intelligently and assiduously.

The Trial Balance having been agreed, the preparation of the Final Accounts may be proceeded with.

Q. 61. *Assuming that the Book-keeper has agreed the Trial Balance at the end of a trading period, what matters will require his immediate attention thereafter?*

A. The following matters require to be dealt with immediately after the agreement of the Trial Balance:—

1. The value of stock-in-trade at the end of the trading period must be ascertained.

2 All book debts which have proved to be irrecoverable must be written off as bad, and a provision must be made to cover estimated loss on debts doubtful of recovery

3 All outstanding liabilities in regard to expenses incurred during the trading period and not paid for should be provided for

4 All payments made in advance should be apportioned between the amount attributable to the period under review and the one relating to the succeeding period

5 All income accrued during the period under review and not received should be brought into account Similarly, if any income is received in advance of the trading period, the same will have to be adjusted

6 A reasonable provision should be made in regard to wear and tear of fixed assets utilised for the purpose of earning

7 The interest on the Capital of the proprietor will have to be brought into account

All such adjustments are made by means of Journal Entries

Q 62 *Explain carefully what you understand by a Bank Reconciliation Statement*

A All the moneys paid in by the customer in the bank on current account as also the sums paid thereout by the banker are entered up in a Pass Book which is kept and written up by the banker and sent to the depositor for verification as and when the latter demands it Since the Bank Pass Book records the amounts paid into the Bank and the amounts withdrawn therefrom, the balance on any one date as indicated by this book must be the same as the balance shown by the bank columns of the cash book of the current depositor on that same date It seldom happens, however, in practice that the Bank Pass Book balance agrees with the Cash Book balance on any one particular date This is due to the following reasons —

1 Cheques may have been drawn in payment of accounts due and credited in the Bank Column of the Cash Book, but the same may not appear in the Pass Book owing to their not having been presented to the Bank for payment upto the date on which the two balances are compared

2 Up-country cheques may have been paid into the Bank and debited in the Bank Column of the Cash Book, but the same may not have been credited in the Pass Book on account of the fact that they may not have been cleared.

3 Credit for interest on Current Account may have been given in the Pass Book, but no corresponding entry may have been made in the Cash Book

4 Debits might have been given in the Pass Book in respect of Bank Charges and Commission, but the same may not have been entered in the Cash Book

A Reconciliation Statement is, therefore, prepared at periodical intervals with a view to indicate the items which cause such disagreement between the balances as per the Bank columns of the Cash Book and the Bank Pass Book on any given date. It is prepared after all the items in the Pass Book are ticked off with the entries in the Cash Book Bank Columns. A list is then made of such items as are found not ticked either in the Cash Book or the Pass Book. The unticked items in the Cash Book will represent cheques paid in but not credited in the Pass Book, or cheques issued but not presented for payment. The unticked items in the Pass Book will relate to the credits given, if any, for interest on Current Account or the debits in respect of Bank Charges and Commission.

Q. 63. *From the following particulars, prepare a Bank Reconciliation Statement showing the Balance as per Bank Pass Book on 31st December 1966. The following cheques were paid into the firm's Current Account in December 1966, but were credited by the Bank in January 1967. A. Das, Rs. 250; B. Gupta, Rs. 300; and C. Roy, Rs. 240.*

The following cheques were issued by the firm in December 1966 but were cashed in January 1967. M. Blue, Rs. 300; N. White, Rs. 500, and C. Black, Rs. 300.

A cheque for Rs. 100 which was received from a customer was entered in the Bank Column of the Cash Book in December 1966, but the same was paid into Bank in January 1967. The Pass Book shows a credit of Rs. 250 for interest and a debit of Rs. 50 for Bank charges. The Bank Balance as per Cash Book was Rs. 18,000 on 31st December 1966.

A.

BANK RECONCILIATION STATEMENT

As at 31st December 1966

	Rs.	Rs.
Bank Balance as per Cash Book		18,000
Less Cheques paid in but credited by Bank subsequent to 31st December	790	
Less Cheque entered in December but paid into Bank in January	100	
Less Bank charges not entered in Cash Book ...	50	
		940
		17,060
Add Cheques issued before 31st December but presented subsequently	1,100	
Add Interest credited by Bank but not entered in in Cash Book	250	
		1,350
Balance as per Pass Book	Rs.	18,410

Q 64 *Set out below are the extracts from the Cash Book (Bank columns only) and Bank Pass Book of C Das Prepare a Reconciliation Statement as on 31st December 1966*

DR CASH BOOK CR.

Date		Particulars	Amount	Date		Particulars	Amount
1966			Rs P	1966			Rs P
Dec	1	To Balance	3,900.00	Dec	3	By Wages	1 200 00
„	4	„ A Roy	700 00	„	5	„ Petty Cash	10 00
„	7	„ S Valji	760 00	„	6	„ Interest on Loan	20 00
„	9	„ B Jones	250 00	„	8	„ Drawings	300 00
„	11	„ Interest on securities	400 00	„	11	„ Bank Charges	0 25
„	28	„ Patel & Sons	120 00	„	14	„ Motilal & Sons	700 00
„	29	„ C White	600 00	„	27	„ Pestonjee & Co	90 00
	30	„ A. Karmally	2,200 00	„	31	„ Salaries	180 00
„	31	„ Mehta Bros	300 00	„	„	„ A. Gupta	730 00
				„	„	„ Balance	5,999 75
		Rs	9,230 00			Rs	9,230.00
1967							
Jan.	1	To Balance	5 999 75				

BANK PASS BOOK

DR (C Das with National Bank of India) CR

Date		Particulars	Amount	Date		Particulars	Amount
1967			Rs P	1966			Rs. P
Jan.	1	To A. Gupta	730 00	Dec	31	By Balance	3 599 75
„	3	Commission on Calcutta Draft	0 37	1967 Jan	1	„ Patel & Sons	120 00
„	„	„ Telephone & Co	400.00	„	3	„ C White	600 00
„	4	„ S Bomanjee	225 00	„	4	„ V Sen & Co Ltd	320 00
„	5	„ Pestonjee & Co	90 00	„	5	„ Cash	400 00
	6	„ Commission on Delhi Cheque	1 37	„	6	„ A Karmally	2,200 00
				„	6	„ Mehta Bros	300 00

A BANK RECONCILIATION STATEMENT

As at 31st December 1966

			Rs P
(a) Bank Balance as per Cash Book			5 999 75
Less Cheques paid into Bank in December but credited in January —			
	Rs		
Patel & Sons	120		
C White	600		
A. Karmally	2,200		
Mehta Bros	300		
			3,220 00
			2 779 75
Add Cheques issued in December but cashed in January —			
	Rs		
A Gupta	730		
Pestonjee & Co	90		
			820 00
Balance as per Pass Book		Rs	3 599 75

The above problem may also be worked starting with the Pass Book Balance, thus:—

		Rs. P.
(b) Balance as per Pass Book		3,599.75
Add Cheques paid into Bank in December but credited in January:—	Rs.	
J. Patel & Sons	120	
C. White	600	
A. Karmally	2,200	
Mehta Bros.	300	
		3,220.00
		6,819.75
Less Cheques issued in December but cashed in January:—	Rs.	
A. Gupta	730	
Pestonjee & Co.	90	
		820 00
Balance as per Cash Book	Rs.	5,999 75

Q. 65. *On 31st March 1967, your Bank Pass Book showed a balance of Rs. 6,000, to your credit. Before that date, you had issued cheques amounting to Rs. 1,500, of which cheques amounting to Rs. 900 have so far been presented for payment. A cheque of Rs. 800 paid by you into the Bank on 29th March is not yet credited in the Pass Book. You had also received a cheque for Rs. 160, which although entered by you in the Bank Column of the Cash Book, was omitted to be paid into the Bank. On 31st March, a cheque of Rs. 250 received by you was paid into the Bank but the same was omitted to be entered in the Cash Book. There was a credit of Rs. 85 for Interest on Current Account and a debit of Rs. 10 for Bank Charges. Draw up a Reconciliation Statement showing adjustments between your Cash Book and Bank Pass Book.*

A.

BANK RECONCILIATION STATEMENT

As at 31st March 1967

	Rs.	Rs.
Balance as per Pass Book		6,000
Less Cheques issued but not presented . ..	600	
„ Cheque credited by Bank but not entered in the Cash Book	250	
„ Interest credited by Bank and not entered in the Cash Book	85	
		935
		5,065
Add Cheque paid in but not credited by Bank ..	800	
„ Cheque not banked, though entered in the Cash Book	160	
„ Bank Charges debited but not adjusted in the Cash Book	10	
		970
Bank Balance as per Cash Book	Rs.	6,035

Q 66 *From the following particulars, ascertain the Bank Balance as would appear in the Pass Book of A as at 31st December* 1966

1 The Bank Overdraft as per Cash Book on 31st December 1966 was Rs 6 000

2 Interest on overdraft for six months ending 31st December 1966, Rs 200 is debited in the Pass Book

3 Bank charges for the above period also debited in the Pass Book amount to Rs 50

4 Cheques issued but not cashed, prior to 31st December 1966 amounted to Rs 1,500

5 Cheques paid into Bank, but not cleared and credited before 31st December 1966 were for Rs 2 500

6 Interest on Investments collected by the Bankers and credited in the Pass Book amounted to Rs 1 800

A

BANK RECONCILIATION STATEMENT

As at 31st December 1966

		Rs	Rs
Bank Overdraft as per Cash Book			6 000
Add Interest on Overdraft debited in the Pass Book		200	
Bank Charges debited in the Pass Book		50	
Cheques paid into Bank but not yet collected		2 500	
			2 750
			8 750
Less Cheques issued but not cashed		1 500	
Interest on Investments credited by Bank but not adjusted in the Cash Book		1 800	
			3 300
Bank Overdraft as per Pass Book	Rs		5 450

Q 67 *How would you rectify errors in Accounting?*

A As a rule errors are rectified by means of Journal Entries but in some cases rectification may be done without passing any Journal Entry Where the Journal is used as a means of correcting a mistake there should be a detailed narration fully explaining the rectification

Q 68 *How would you rectify the following errors discovered after the preparation of the Trial Balance?*

1 An amount of Rs 15 representing Cash Discount allowed by P Atmaram on payment of his account stands debited to his account in the Ledger, but is not shown in the Discount Column against the payment entry in the Cash Book

2 An item of Rs 750 paid for the purchase of a Gas Engine has been debited to Cash Purchases Account from the Cash Book

3. An item of Rs. 200 for purchase of Office Furniture has been wrongly passed through the Purchase Book.

4. An amount of Rs. 105.15 P. for a credit sale to C. Gupta although correctly entered in the Sales Book has been wrongly posted as Rs. 115.05 P.

5. A credit purchase of goods amounting to Rs. 125 from P. Benjamin & Co., has been omitted to be passed through the Invoice Book, but the payment made subsequently stands debited to an account opened in their name.

6. A credit sale of Rs. 75 to C. Green duly entered in the Sales Book has been credited to C. Green's account.

7. A credit purchase of goods for Rs. 9.60 P. from A. Arthur correctly entered in the Invoice Book has been wrongly posted as Rs. 6.90 P. to the credit of A. Arthur's account.

A. The following Journal Entries would serve to rectify the errors:—

JOURNAL ENTRIES

			L.F.	Rs.	Rs.
1.	P. Atmaram	Dr.		15	
	To Discount Account				15
	(For amount of Cash discount allowed by him entered direct in the Ledger and omitted to be shown in the Discount Column of the Cash Book by mistake.)				
2.	Plant & Machinery Account	Dr.		750	
	To Cash Purchase Accounts				750
	(For amount representing cost of Gas Engine wrongly debited to the latter account now transferred.)				
3.	Office Furniture Account	Dr.		200	
	To Purchase Account				200
	(Being the debit in regard to purchase of Office Furniture wrongly given to the latter account, set right.)				

4. It is not necessary to adjust such an error through the Journal. The usual method is to adjust the excess debit of Rs. 9.90 P. to C. Gupta by entering an equal amount on the credit side of his account. Another way to bring about the adjustment would be to rule through the incorrect posting and make a fresh posting of the correct amount.

			L.F.	Rs.	Rs.
5.	Purchases Account	Dr.		125	
	To P. Benjamin & Co.				125
	(For credit purchase omitted to be entered through the Purchases Book.)				

6. The rectification of this error will not require a Journal Entry. The account of C. Green would first be debited with Rs. 75 to cancel the erroneous credit and would then be again debited with further Rs. 75 to represent the amount of sale.

7. No Journal Entry would be needed to rectify this error. A. Arthur's account would have to be credited with a further sum of Rs. 2.70 P. to make up the short posting.

Q 69 *Pass Journal Entries necessary to rectify the following errors* —

1 An amount of Rs 200 withdrawn by the proprietor for his personal use has been debited to Trade Expenses Account

2 A purchase of goods from T Nathan amounting to Rs 300 has been wrongly entered through the Sales Book

3 A credit sale of Rs 100 to C Jairam has been wrongly passed through the Purchases Book

4 Rs 50 received from Shaw & Co, have been credited to Shah & Co

5 Rs 175 paid on account of salary to the Cashier C Govind stand debited to his personal account

6 A Contractor's bill for extension of premises amounting to Rs 2,750 has been debited to Building Repairs Account

7 On 24th June, goods of the value of Rs 250 were returned by A. Ramrao and were taken into stock but the returns were entered in the books under date 3rd July i e after the expiration of the financial year on 30th June

8 A Bill of Rs 125 for old Office Furniture sold to D Jivaji was entered in the Day Book

9 The periodical total of the Sales Book was cast short by Rs 100

10 An amount of Rs 80 received on account of Interest was credited to Commission Account

11 An amount of Rs 105 paid for wages is posted twice to the debit of Wages Account

A. JOURNAL ENTRIES

			L.F	Rs	Rs
1	Drawings Account To Trade Expenses (For the amount withdrawn for personal use wrongly charged to the latter account.)	Dr		200	200
2 (*a*)	Sales Account To T Nathan (Being the cancellation of the entry passed through the Sales Book)	Dr		300	300
(*b*)	Purchases Account To T Nathan (To record the credit purchase from the latter)	Dr		300	300
3 (*a*)	C. Jairam To Purchases Account (Being cancellation of the entry passed through the Purchases Book.)	Dr		100	100
(*b*)	C. Jairam To Sales Account (Being the entry to record the credit sale)	Dr		100	100

JOURNAL ENTRIES—*contd.*

		L.F.	Rs.	Rs.
4.	Shah & Co. .. .. .. Dr.		50	
	To Shaw & Co.			50
	(Being the rectification of a wrong credit given to the former account.)			
5.	Salaries Account .. .. .. Dr.		175	
	To C. Govind			175
	(Being the adjustment of Salary wrongly debited to the Personal Account of the cashier.)			
6.	Building Account .. .. .. Dr.		2,750	
	To Building Repairs Account			2,750
	(Being the adjustment of amount wrongly debited to the latter Account.)			
7.	Returns Inwards Account .. .. .. Dr.		250	
	To A. Ramrao			250
	(Being the entry necessary to record the Returns Inwards within the financial period.)			

Note:—The entry recording the above returns made under date 3rd July will have to be cancelled by passing a reverse entry under that same date debiting A. Ramrao and crediting Returns Inwards Account.

		L.F.	Rs.	Rs.
8.	Sales Account .. .. .. Dr.		125	
	To Office Furniture Account			125
	(Being the sale of old Office Furniture wrongly passed through the Sales Book.)			

9. The rectification of this error does not need any Journal Entry. Rs. 100 will have to be added to the addition of the Sales Book and corresponding amount will have to be added to the credit of the Sales Account in the Ledger.

		L.F.	Rs.	Rs.
10.	Commission Account .. .. .. Dr.		80	
	To Interest Account			80
	(Being the adjustment of amount wrongly credited to the former account.)			

11. No Journal Entry is needed to adjust this error. One item of Rs. 105 will have to be ruled out from the debit side of the Wages Account in the Ledger. Another way of rectifying this error will be to credit the Wages Account with Rs. 105 to offset the excess debit.

TRADING AND MANUFACTURING ACCOUNTS, PROFIT AND LOSS ACCOUNT AND BALANCE SHEET

Q. 70. *What purpose does a Profit & Loss Account serve?*

A. The Profit & Loss Account serves to show to the trader the net profit or the net loss resulting from his transactions during any particular period

Q. 71. *Describe the two main divisions of Profit & Loss Account*

A The Profit & Loss Account is divided into two sections —

1 The Trading Account, and

2 The Profit & Loss Account

The Trading Account shows the result of the buying and selling of goods It therefore contains in a summarised form all the transactions occurring during a trading period which have direct relation to the goods dealt in by the business In preparing this account, the general establishment charges are ignored, and only the transactions in goods are included. The balance of the Trading Account represents the **gross profit** on trading for the period, i e the excess of the selling price of the goods sold over their purchase price

The Profit & Loss Account is credited with the amount of the Gross Profit as shown by the Trading Account. It is also credited with other items of gain, such as, rents received, interest earned, discount earned, etc It is then debited with all the expenses incidental to the carrying on of the business such as office rent, salaries, trade expenses, printing, advertising, etc, and any other item of expense as has not been charged to the Trading Account If the credit total of this account is heavier, the result represents net profit to the extent of the difference, and if the debit side is heavier, it means net loss

Q. 72. *What items generally appear on the debit and credit sides of the Trading Account?*

A. The following items usually appear on the debit and credit sides of the Trading Account —

On the Debit side.—

1 Stock on hand at the commencement of the period

2 Total Purchases made during the period, less value of Returns Outwards.

3 Direct Charges, i.e such expenses as add directly to the cost of the goods purchased, such as Freight, Duty, Clearing Charges, Dock Dues, Carriage Inwards and Cartage.

On the Credit side:—

1. Total Sales made during the period, less the value of Returns Inwards.

2. Stock on hand at the end of the period.

The excess of the credit total over the debit is called the **Gross Profit**, i.e. the excess realised on the sales over the purchase price of the goods sold and is transferred to the Profit and Loss Account.

Q. 73. *Give the usual form of Trading Account.*

A. In its simplest form, the Trading Account will appear as under:—

TRADING ACCOUNT

	Rs.	Rs.		Rs.	Rs.
To Stock at commencement		20,000	By Sales	1,20,000	
„ Purchases	70,000		*Less* Returns	1,200	
Less Returns	1,000				1,18,800
		69,000	„ Stock at close		25,000
„ Carriage Inwards		1,500			
„ Gross Profit carried to Profit & Loss Account		53,300			
	Rs.	1,43,800		Rs.	1,43,800

Q. 74. *What advantages accrue from the preparation of a Trading Account?*

A. The advantages of a Trading Account are:—

1. It shows the gross result arising from the buying and selling of goods.

2. It enables a comparison to be made of the purchases, sales and stock of one period with similar items of the preceding period and thus help to detect the weak spots of the business.

3. It provides means for the ascertainment of the ratio of gross profit to the turnover, in order to find out how far the anticipated results have been achieved.

4. It affords a check on the percentages which the expenses of administration and distribution bear to the gross profit.

Q. 75. *What benefit would be secured by the preparation of a comparative Trading Account?*

A. A comparative scrutiny of the various figures embodied in the Trading Account with similar figures of the previous period would help those in management to maintain a firm grip on the details of the business and would equally enable them to draw conclusions which might prove of

inestimable value In any case, such a comparison would inform them of the following points —

1 Whether there has been any increase or decrease in the ratio of gross profit to turnover, and if so, how such variation can be accounted for If the results disclose a steady decrease in the ratio of the gross profit from period to period, it would signify a sad state of affairs and would naturally call for urgent and drastic remedies

2 To what extent the stock has been fluctuating and whether such stock is maintained within legitimate limits

3 Whether the buying has been judicious

4 How far the sales are on the increase or otherwise

5 Whether there has been any theft or leakage of goods

Q 76 *If the percentage of gross profit to the turnover of the current period shows an abnormal increase over the similar percentage of the previous period, what causes may account for the same?*

A Any one or more of the following causes may account for an abnormal increase in the ratio of gross profit to the turnover —

(a) The stock might have been over-valued due to a different basis of valuation having been adopted or due to errors in inventories

(b) The purchase price during the period having remained constant, the sale price may have been enhanced.

(c) Goods may have been taken in stock, but the corresponding purchase invoices may not have been entered.

(d) Goods entered as sold but not delivered may have been inadvertently included in stock

(e) Some sales may have been entered twice

Q 77. *Give the causes that may account for an unusual decrease in the percentage of gross profit to the turnover as compared with similar percentage of the preceding period*

A An unusual decrease in the ratio of gross profit may be accounted for by any one or more of the following reasons —

(a) Stock may have been under-valued.

(b) Whereas the sale price of the goods dealt in may have remained the same as in the previous year, the purchase price may have gone up

(c) There might have been pilferings of stock.

(d) Some purchases might have been entered twice

(e) Goods entered as bought may not have been received and thus not included in stock

(f) Some sales moneys may have been misappropriated and the sales not accounted for.

(g) Goods sold and actually delivered may not have been entered in the Sales Books due to inadvertence.

Q. 78. *Describe the steps necessary for proper stock-taking and the basis to be adopted for stock valuation.*

A. As the figure of Closing Stock would materially affect the trading results, it becomes necessary to see that the greatest possible care and trouble are taken to include this item at a fair and correct value. For this reason, inventories of unsold goods on hand at the close of each trading period should be most carefully prepared under the strict supervision of some responsible person. All quantities as entered on the Stock Sheets and the rates should be re-checked by some competent and reliable persons. Even the extensions and calculations made by one set of clerks should be checked by some other independent assistants.

The basis of valuation generally adopted is the actual cost price. If, however, any part of the stock is damaged or shopsoiled or has become obsolete or unsaleable, due allowance will have to be made for such depreciation in value. Unsold stock should never be valued at selling price, if that price exceeds the cost price. If the goods unsold are valued at selling price, the result would be to anticipate a profit upon them which may or may not be realised. In other words, the profit on goods should only be brought into account when they are actually sold and delivered. If, however, the market price is less than the cost price, then a loss has evidently been incurred, since the goods can only be sold at a loss, and under such a circumstance, they should be valued at the market price.

Note:—The student will bear in mind the fact that the figure of closing stock has to be shown on the credit side of the Trading Account in order to ascertain the gross profit, and will then understand how any over-valuation or under-valuation of this item will show results at once misleading and false.

Q. 79. *What principles should be kept in view while valuing closing stock? Is there any exception to the general rule?*

A. The following principles may be laid down as sound in determining the value of the stock of unsold goods on hand, viz.:—

1. Profit on goods is deemed to have been earned only when the goods are actually sold;
2. No profit should be anticipated and taken credit for until it is earned;
3. If there is any chance of a loss likely to arise, the same must immediately be provided for: and in view of the above rules, it follows that

4 The stock of unsold goods should always be valued at cost price or market price, whichever is the lower

An exception to the above general rule in regard to stock valuation is to be found in case of the Wine and Timber Trades where the stocks appreciate in value from year to year due to their maturing in quality In such a circumstance it is permissible to add a reasonable percentage to the original cost at periodical intervals to cover the burden in respect of interest on the portion of capital thus locked up In no case, however, should such value exceed the then market value of similar class of goods

Note —An important point in connection with stock valuation is that the basis of valuation adopted from year to year must be consistent in order to afford material for reliable comparisons of trading results

Q 80 *Mention the salient points in connection with the following items for the purpose of their inclusion either in the Trading or Profit and Loss Account*

(a) *Purchases*
(b) *Packing Materials*
(c) *Freight, Carriage and Cartage*
(d) *Customs and Excise Duties*
(e) *Dock Dues and Clearing Charges*
(f) *Sales*

A (a) **Purchases** —This item should include cash as also credit purchases of all goods bought for re-sale during the trading period The gross purchases will appear in the inner column and the net amount after deduction of Returns Outwards in the outer column of the Trading Account

It should be seen that all goods entered in the Purchases Book and remaining unsold are included in the Closing Stock

Sometimes, Invoices are received in advance of goods and if the corresponding goods have not arrived before the close of the trading period, neither should such Invoices be entered in the Purchases Book nor should the goods be taken in Closing Stock

A point of equal importance is to see that all goods received and included in the stock are duly entered up in the Purchases Book

(b) **Packing Materials** —Where the articles dealt in call for special packing of a costly nature, such packing charges would naturally be included in the sale price of goods, and the cost of packing must, therefore, be treated as a charge to the Trading Account Packing charges incurred in the ordinary way may be treated just like any other business expense and charged to the Profit and Loss Account

(c) **Freight, Carriage and Cartage.**—Freight, Carriage, and Cartage **inwards** on purchases of goods for re-sale are always looked upon as forming additional cost of such goods and are, therefore, shown in the Trading Account.

On the other hand, Freight, Carriage or Cartage **outwards**, if incurred in despatching the goods to the customers, will have to be treated as a selling expense and will be charged to the Profit and Loss Account.

(d) **Customs and Excise Duties.**—Customs Duty is levied either on goods imported or exported. Excise Duty is one levied on indigenous products used for local consumption. If such duties are paid on purchases, they should appear in the Trading Account whereas if they are paid on sales, they should be charged to the Profit and Loss Account and treated as a selling expense.

(e) **Dock Dues and Clearing Charges.**—Those incurred on Purchases would be shown in the Trading Account, and those on Sales in the Profit and Loss Account.

(f) **Sales.**—This item should include all cash and credit sales of goods effected during the period. The gross sales should appear in the inner column and the net figure after deduction of Returns Inwards in the outer column on the credit side of the Trading Account.

In regard to the entries in the Sales Book a few days before the close of the financial period, it should be seen that the corresponding goods have been taken out of the bulk and delivered. In any case, goods entered as sold should not be treated as forming part of the Closing Stock.

Q. 81. *How does a Manufacturing Account differ from a Trading Account?*

A. A Manufacturing Account is prepared in a manufacturing business quite distinct from the Trading Account in order that whereas the Manufacturing Account may serve to indicate the results of the Manufacturing Department, the Trading Account may help to reflect the results achieved by the Selling Department.

Q. 82. *What items generally appear on the debit and credit sides of the Manufacturing Account?*

A. As to what items should appear on the debit and credit sides of the Manufacturing Account would depend upon the information that is sought to be obtained therefrom. With some manufacturers, a Manufacturing Account is drawn up solely for the purpose of arriving at the actual **Cost of Production** of the goods manufactured during a given period. With others, a Manufacturing Account is prepared with the object of finding out what profit, if any, has been made by the Manufacturing Department. In any case, where separate Manufacturing and Trading Accounts are prepared, whereas the

Manufacturing Account would deal with raw materials, partly manufactured goods and manufacturing expenses, the Trading Account would necessarily deal with Finished Goods only

Q. 83 *(a) What items would appear in a Manufacturing Account prepared with a view to indicate the actual cost of production and how would this account be ultimately dealt with?*

(b) How would the Trading Account appear under such a circumstance?

A. (a) Where the Manufacturing Account is compiled with a view to ascertain the actual manufacturing cost of the articles produced, there would appear on the debit side, the Opening Stock of Raw Materials and Goods-in-Process of Manufacture, Purchases of Raw Materials and Carriage or Cartage thereon, Manufacturing Wages and all other expenses relating to the factory Against these would be set off, on the credit side, the closing stock of Raw Materials and Goods-in-Process of Manufacture at actual cost The account would then show neither profit nor loss, and the balance representing the actual cost of production of the Finished Goods, would be transferred to the Trading Account

(b) The Trading Account in this case would stand charged with the cost of the finished goods ascertained as above On the debit side of this account, there would also appear the Opening Stock of Finished Goods, the outside Purchases of Finished Goods, if any, and the direct charges thereon On the credit side would be shown the Sales and the Closing Stock of Finished Goods The difference between the two sides of the Trading Account, in this case, would indicate the gross profit inclusive of the profit, if any, made by the Manufacturing Department

Q. 84 *(a) State why it is necessary for a manufacturer to ascertain the profit, if any, made by his Manufacturing Department apart from the gross profit made by the Selling Department*

(b) How should the Manufacturing Account be constructed in order that it may indicate the actual profit or loss made by the manufacturing department?

(c) How would the Trading Account be prepared under this circumstance and what purpose will it serve?

A. (a) In a large manufacturing concern where so many varied factors enter into the cost of production of the articles manufactured, it is highly desirable that the proprietors should be able to see for themselves as to what profit is made by their Manufacturing Department apart from the profit earned by the Sales Department. This is necessary in order to ascertain whether the Manufacturing Department has justified its existence It may be

mentioned that, it would be no use continuing with this department if it is found that the goods cannot be produced at a profit, i.e., at anything less than their current trade price. The current trade price, in this case, would mean the price at which similar articles can be bought from other manufacturers.

(b) When a Manufacturing Account is prepared with a view to find out profit or loss on manufacturing, all the items on the debit side of this Account would be shown in just the same manner as described in the immediate preceding question. On the credit side also will be shown the Closing Stock of Raw Materials and Work-in-Progress (the same as in the previous case). In this case, however, instead of the difference between the two sides being shown as a balance representing the Cost of Production of Finished Goods, the Finished Products during the year would be valued at the Current Trade Price and the amount thus arrived at will be debited to the Trading Account and credited to the Manufacturing Account. The Manufacturing Account will now serve to indicate the profit or loss on manufacturing, and the difference on this account will be transferred to the Profit and Loss Account. This will close the Manufacturing Account.

(c) The Trading Account, in this case, will stand charged with the Trade Price of the Finished Products for the purpose of sale. The result thus indicated by the Trading Account, after the other usual debits and credits are given, would signify the true gross profit made by the Trading Department.

Q. 85. *When is a combined Trading and Manufacturing Account prepared and what would such an account signify?*

A. There are small manufacturing businesses which prepare a combined Manufacturing and Trading Account. Such an account would naturally include all items dealing with the manufacturing costs and the sales, but will fail to indicate the actual profit made by the Manufacturing Department as distinct from the trading results. The resultant gross profit as ascertained by this combined account would include the profit made from manufacturing as also the gross profit on sales.

Note:—For examination purposes, where separate Manufacturing and Trading Accounts are not required, the student would do well to prepare a combined account. On the debit side of this account would be shown the opening stock of Raw Materials, Work-in-Progress and Manufactured Goods, Purchases of Raw Materials and Direct Charges thereon, as also all the Factory Expenses. Against these would be set off the Sales and the Closing Stock of Raw Materials, Work-in-Progress and Manufactured Goods on the credit side. The difference would then represent the Gross Profit on Sales including the manufacturing profit.

Q. 86. *Give the Forms in which the Manufacturing and Trading Accounts would usually appear under each of the following circumstances:—*

(a) Where a separate Manufacturing Account is prepared with a view to ascertain the actual cost of production.

(b) Where a separate Manufacturing Account is prepared with the object of ascertaining the profit made by the Manufacturing Department as quite distinct from the gross profit made by the Sales Department

(c) Where one combined Manufacturing and Trading Account is prepared.

A. 86. (a) Where the Manufacturing Account is prepared with the object of showing the Cost of Production, the Gross Profit as disclosed by the Trading Account would include manufacturing profit as also the gross profit on sales

MANUFACTURING ACCOUNT
(Showing Cost of Production)

		Rs.			Rs
To Stock at commencement — Raw Materials, Partly Manufactured Goods		.	By Stock at end — Raw Materials, Partly Manufactured Goods	..	..
„ Purchase of Raw Materials			„ *Cost of Production during the period transferred to Trading Account*		.
Less Returns					
„ Carriage Inwards on Raw Materials					
„ Direct Wages (Productive)		...			
„ Factory Expenses —					
Rent and Taxes	.				
Lighting and Heating	.				
Motive Power	.				
Coal and Coke	.				
Factory Insurance	.				
Indirect Wages (non productive)	. .				
Repairs to Plant & Factory Building	...				
Depreciation on Plant	....				
Depreciation on Factory Building	.. .	....			
Rs.		.	Rs		

TRADING ACCOUNT
(Showing Gross Profit inclusive of Profit on Production)

		Rs.			Rs.
To Stock of Finished Products at commencement		....	By Sales	....	
„ *Cost of Production transferred from Manufacturing Account*		...	*Less* Returns	.	. ..
„ Purchase of Finished Products	.. .		„ Stock at end — Finished Products	....	....
Less Returns	. ..	...			
„ Carriage Inwards thereon		....			
„ Gross Profit—transferred to Profit & Loss Account		....			
Rs.		..	Rs.		....

(b) Where the Manufacturing Account is prepared with the object of showing the profit made on Manufacturing, the Gross Profit as disclosed by the Trading Account would indicate the gross profit on sales.

MANUFACTURING ACCOUNT

(Showing Profit on Manufacturing)

		Rs.			Rs.
To Stock at commencement:—			By Stock at end:—		
Raw Materials	....		Raw Materials	....	
Partly Manufactured Goods	....	....	Partly Manufactured Goods	....	....
„ Purchase of Raw Materials			„ *Trading Price of Finished Products transferred to Trading Account*		...
Less Returns	....	....			
„ Carriage Inwards on Raw Materials		....			
„ Direct Wages (Productive)		....			
„ Factory Expenses:—					
Rent and Taxes	....				
Lighting and Heating	....				
Motive Power	....				
Coal and Coke	....				
Factory Insurance	....				
Indirect Wages (non-productive)	....				
Repairs to Plant and Factory Building	....				
Depreciation on Plant	....				
Depreciation on Factory Building	....	....			
„ *Gross Profit on Manufacturing—transferred to Profit and Loss Account*		....			
Rs.		....	Rs.		....

TRADING ACCOUNT

(Showing Gross Profit on Sales)

		Rs.			Rs.
To Stock of Finished Products at commencement		....	By Sales	....	
„ *Manufacturing Account*:—			*Less* Returns	....	....
Transfer of Trade Price of Finished Products		....	„ Stock at end:—		
„ Purchase of Finished Products	....		Finished Products		....
Less Returns	....	....			
„ Carriage Inwards thereon		....			
„ Gross Profit on Sales—transferred to Profit and Loss Account		....			
Rs.		....	Rs.		....

(c) COMBINED MANUFACTURING AND TRADING ACCOUNT

	Rs.		Rs
To Stock at commencement —		By Sales	
Manufactured Goods		*Less* Returns	
Work-in Progress			
Raw Materials		„ Stock at end —	
		Manufactured Goods	
„ Purchase of Raw Materials		Work-in Progress	
Less Returns		Raw Materials	
„ Carriage Inwards			
„ Wages			
„ Factory Lighting			
„ Motive Power			
„ Factory Rent and Taxes			
„ Factory Insurance			
„ Coal and Coke			
„ Water			
„ Oil and Tallow			
Belting			
„ Sundry Factory Expenses			
„ Repairs to Factory Building			
„ Repairs to Plant			
„ Depreciation on Factory Building			
„ Depreciation on Plant			
„ *Gross Profit including Profit on Manufacture transferred to Profit and Loss Account*			
Rs.		Rs.	

Q 87 *State what you know about the item Work in Progress and how it should be valued*

A. In a manufacturing concern, the item 'Work in Progress" would mean goods in process of manufacture whereas in case of a contractor the same expression would mean work partly executed but not completed. Where a separate Manufacturing Account is prepared, Work in Progress at commencement will appear on the debit and that at the end of the financial period will appear on the credit side of the Manufacturing Account Great care should be taken in valuing work in progress The basis of valuation considered as sound and correct and the one that is generally followed in practice is the cost of raw materials and direct wages *plus* a reasonable proportion of works oncost, i.e. manufacturing expenses

Q 88 *How should the following items be dealt with in a Manufacturing Account?*

(a) *Raw Materials and Stores*
(b) *Materials Consumed*
(c) *Productive Wages*
(d) *Finished Products*
(e) *Royalties*
(f) *Manufacturing Expenses or Factory Charges*

A. (a) **Raw Materials and Stores.**—In a manufacturing concern this item would denote purchases of raw materials and stores and will appear on the debit of the manufacturing account. Freight, Carriage or Cartage and Dock Charges, if any, on the purchase of raw materials must also be shown in the manufacturing account.

As raw materials and stores are held by a manufacturing concern not for the purpose of re-sale in their original condition, but to be utilised in the process of manufacture, the basis of valuation usually adopted is the cost price. The cost price for this purpose would be the net invoice price plus freight, duty, carriage inwards, etc. Under ordinary circumstances, even if the market price has fallen below cost, the value of the raw materials and stores in stock need not be brought down to that level. When, however, the fall in market price is appreciably heavy so as to affect the selling price of the manufactured products, it would be desirable to value these at market price.

(b) **Materials Consumed.**—This item generally appears on the debit of the Manufacturing Account. It is arrived at by taking the figure of opening stock of raw materials, adding thereto the purchases during the period and deducting from the total the closing stock of raw materials.

(c) **Productive Wages.**—In the absence of any information to the contrary, the item of wages (in a manufacturing concern) would always mean manufacturing wages and would find its place in the manufacturing account. In case of a trading concern, the item would appear in the Profit and Loss Account.

Wages, if any, due to the end of the financial period and not paid should be brought into account as an outstanding liability.

Wages, paid to workmen who may have been employed in manufacturing loose tools or plant or on erection of plant or in making extensions to works premises, are allowed to be capitalised and should be charged to the asset account in question.

(d) **Finished Products.**—The basis for the valuation of Finished Products should be the actual Factory Cost as in case of partly finished goods. It is always sound and prudent not to add any percentage in respect of office oncost. An important point to be borne in mind while valuing finished and partly finished products is that if the actual cost of these exceeds their market price, the market price should be the basis of valuation and not the cost price.

Where a manufacturing account is prepared quite distinct from the Trading Account, the opening and closing stocks of Finished Products will appear on the debit and credit sides of the Trading Account and not in the Manufacturing Account, as the latter account is supposed to deal with Raw Materials and Work-in-process of Manufacture and the Trading Account with Finished Products.

(e) **Royalties.**—In a manufacturing concern, this item would signify amounts paid to the patentees for the right to use their patents in connection

with manufacturing processes In a publishing business the same item would mean amounts paid to authors for the right to print, publish and sell their works In a mining business, this item signifies amounts paid to the lessor by the lessee of a mine for the right to work the mine

Where a separate Manufacturing or Working Account is prepared this item would be charged to such an account, but in the absence of such an account the amount would appear as a debit in the Trading Account

(f) **Manufacturing Expenses or Factory Charges**—Under this head are generally included all the various expenses which have a direct bearing on the running of the factory or works such as Factory Rent Factory Insurance, Motive Power Engine room Stores Factory Lighting Repairs of Plant, Depreciation on Plant etc

Where a separate Manufacturing Account is prepared all such expenses will be charged thereto, otherwise they will be charged to the Trading Account

Q 89 *What is the function of the Profit & Loss Account, and what items usually appear on the debit and credit sides thereof?*

A The function of the Profit and Loss Account is to enable the trader to ascertain the **Net Profit** or **Net Loss** resulting from business transactions during a given period

The Gross Profit as shown by the Trading Account would be transferred to the credit of the Profit and Loss Account On the credit side of the Profit and Loss Account would also be shown other items of miscellaneous income such as Interest, Commission, Discount, Dividend Profit on Exchange Rents received etc On the debit side would be set out all the expenses incidental to the carrying on of the business such as Office Rent, Salaries, Insurance, Advertising Printing and such other expenses or losses as may have arisen in course of earning the above income

Q 90 *What are the important points to be borne in mind in the construction of a Profit & Loss Account?*

A In constructing the Profit and Loss Account, the points to be borne in mind are —

1 That only such items of income and expenses as properly belong to the business are included on both sides of the account

2 That the items included appertain to the trading period under review

3 That each item of income or expenditure is shown under its appropriate head

4 That there is a proper grouping and classification of items

5 That the whole Account is constructed upon a consistent basis from year to year so as to admit of useful comparisons

Q. 91. *What form should a Profit & Loss Account take?*

A. The precise form that the Profit and Loss Account should take must of necessity vary with the nature of the business and the quantity and quality of the information the proprietors of the business would seek to obtain from the account. But, in any case, it is essential for the account to be so drawn up as to disclose the fullest information at a glance, as also to enable an easy comparison to be made of the various expenses and the sources of income with similar items of the previous records.

Note:—The grouping and classification of the expenses and the income as suggested on the next page has been found in practice to be of considerable advantage as it conveys most valuable information in a readily comprehensible manner and may be adopted by any concern with such modifications as may be necessary to meet the particular requirements of the business.

Q. 92. *Is any adjustment of Nominal Accounts necessary before the preparation of a Profit & Loss Account?*

A. Since the object of the Profit and Loss Account is to show the true net profit or loss resulting from trading during any given period, it should be seen that only items of expenses and income belonging to the period covered by such account are embodied therein. It frequently happens that certain expenses such as Salaries, Rent, Advertisement, etc. relating to a trading period do not appear in the books of that period, simply because they have not been paid or the demand notes in respect of them have not been received. On the other hand, it happens that expenses under certain heads, such as Fire Insurance Premium, Telephone Subscription, etc. are usually paid for a year in advance, and it may be that the period for which services are to be received in return for these Payments extends far beyond the close of the financial period. Further, it may be that income by way of interest on loans granted or Interest on gilt-edged securities has accrued due within the period but has so far not been entered in the books as the same has not been received or it may be that income beyond the period under review has already been received in advance. Proper allocations and adjustments would therefore have to be made in respect of outstanding liabilities for expenses, expenses prepaid, income accrued due and not received or income received in advance, if there be any, after a careful scrutiny of the Nominal Accounts concerned in order that the net result as shown by the Profit and Loss Account may be accurately ascertained. All such adjustments and apportionments are made by means of Journal Entries.

(For Profit and Loss Account, see next page.)

Q. 93. *Explain fully what you understand by the following items and what adjustments need be made in connection therewith at the end of each financial period:—*

[*Contd. at foot of next page*

PROFIT AND LOSS ACCOUNT

For the year ended

	Rs	Rs		Rs
To *Selling and Distribution Expenses* —			By Gross Profit	
Warehouse and Store Rent			" Cash Discount Received	
Packing Charges			" Income from Investments	
Export Charges			" Interest on money deposited	
Cost of Samples			" Interest on renewal of Bills	
Cost of Catalogues			" Income from any other Source	
Advertising				
Traveller's Salaries, Expenses and Commission				
Salesmen's Salaries, Expenses and Commission				
Bad Debts				
Up keep of Motor Lorries or Vans				
" *Management Expenses* —				
Office Salaries and Wages				
" Rent and Taxes				
" Lighting & Insurance				
" Car up-keep				
Printing and Stationery				
Telephone Charges				
Postage, Telegrams, etc				
Legal Expenses				
Directors' Fees and Expenses				
Managing Agents' Remuneration and Commission				
Audit Fees				
Office General Expenses				
" *Financial Expenses* —				
Cash Discounts allowed				
Cost of Discounting Bills				
Interest on Capital				
Interest on Borrowed Capital				
Loss in Exchange				
Discount on Issue of Debentures				
Preliminary Expenses written off				
" *Maintenance and Depreciation* —				
Repairs and Renewals				
Depreciation of Assets				
" Net Profit				
Rs			Rs.	

Contd from previous page]

(a) *Outstanding Liabilities for Expenses unpaid,*

(b) *Prepaid Expenses,*

(c) *Income accrued but not received, and*

(d) *Income received in advance*

A. (a) **Outstanding Liabilities for Expenses.**—In most businesses, it is usual to pay items of expenses such as rent, salaries, wages, etc. of each month in the subsequent month. Now, in arriving at the true amount of profit earned in any particular period, it is necessary to charge against it, not only the expenses which have actually been met, but also those which have accrued during the period and remain undischarged at the date of the accounts. If then the trading period of a business ends on the 31st December, it would follow that the office rent, staff salaries and wages, etc. for the month of December, not having been paid in that month, will not appear in the books for the period ended 31st December; and yet, as expenses under these heads have been incurred and as they belong to the trading period ending with 31st December, it is necessary that they be charged to the Profit and Loss Account of the period. Hence the importance of bringing all such outstanding liabilities for expenses into account.

Such an adjustment is made by means of a Journal Entry debiting the various nominal accounts concerned with the amounts due and crediting an account called "Outstanding Liabilities for Expenses". The latter account will appear as a liability in the Balance Sheet. The effect of such an adjustment will be to bring the Expenses Accounts concerned to their proper level representing the total expenditure under each head for the trading period under review, and at the same time to disclose the fact of a liability outstanding at the close of the financial period.

(b) **Prepaid Expenses.**—It is equally important to see that if any item of expenditure on revenue account is paid in advance for which no benefit has yet been obtained, a credit is taken for the proportionate account representing the extent to which the benefit has yet to be received. Thus, the accounts for Telephone Charges, Subscriptions to Trade Periodicals, Fire Insurance, Advertisements, Municipal and other Taxes should be scrutinised to ascertain how far the payments under any of these heads are made in advance extending beyond the trading period, so that a credit may be taken for the proportionate amount belonging to the succeeding period.

If, therefore, any expenses appear to have been paid in advance, the nominal accounts concerned should be adjusted, so that the proportionate amount applicable to the period of trading only may be charged off to the Profit and Loss Account as expenses for the period, and the amount paid in advance may be carried forward to the next period by being shown in the Balance Sheet as an asset under the heading "Expenses Prepaid" or "Expenses Paid in Advance". This is done by means of a Journal entry debiting Expenses Prepaid Account and crediting the nominal account concerned with the amount to be carried forward.

(c) **Income accrued but not received.**—If there is any item of income such as rent receivable, interest on securities, interest on loans granted, or commission, etc. earned and belonging to the period and not received, it is

right and permissible that such credits be brought in, in order that the whole of the income attributable to the period may be shown in the accounts

The necessary adjustment for the purpose of bringing such accrued income into account should therefore be made by means of a Journal Entry debiting Outstanding Income Account and crediting the source of income The debit to Outstanding Income Account will appear as an asset in the Balance Sheet

(d) **Income received in advance**—If a trader finds at the end of the financial period that he has received money on some account, in respect of which the full service has not been rendered by him, it becomes necessary for him to treat as income only such portion thereof in respect of which the service has been rendered and to treat the balance as a liability That portion of the amount in respect of which the service still remains to be rendered will have to be ascertained, and the necessary adjustment will be made by passing the Journal entry debiting the nominal account concerned and crediting an account styled "Income Received in Advance" This credit balance on the latter account will be shown as a liability on the Balance Sheet At the commencement of the succeeding period, the above entry would be reversed.

Q 94. *Explain what you know of the term "Depreciation", and why it is necessary to make an adjustment in respect thereof at the end of each trading period*

A. Depreciation.—It is a matter of common knowledge that all fixed assets, such as plant, machinery, tools, buildings leasehold or freehold, wagons, furniture, fixtures, etc gradually diminish in value as they get older and become worn out by constant use in the business. After a number of years, they become absolutely useless for the purpose for which they were originally intended and have then to be discarded and sold off at break up value

In order that a trader or a manufacturer can arrive at a true amount of net profit made in course of a given period, it is necessary that such gradual loss by way of depreciation in the value of the assets should be provided for The general principle that is observed in this connection is that all assets of a wasting nature should be written down in the books to their scrap value by the time they become useless for the purposes of the business This is done by estimating the probable "life" of each asset and also the amount that would be realised on sale of that asset at the end of the period The difference between the original cost and the estimated realisable value is then written off over the period during which it is anticipated the asset will be utilised in the business In some cases, such as leaseholds, there is no realisable value and the total cost has to be written off during the period of the lease

The Journal Entry to write off depreciation on any asset is to debit Depreciation Account and credit that Asset Account with the amount of

each year's depreciation. The effect of such an entry would be to reduce the book value of the asset from year to year and also to enable such a loss to be charged to Profit and Loss Account of each year.

Q. 95. *What do you understand by Bad Debts and how are they recorded?*

A. Every trader knows from experience that some of the debtors fail to pay their debts in full. Such debts which are thus found to be irrecoverable are called Bad Debts, and will have to be written off as losses. The Journal entry necessary to write off Bad Debts would be to debit Bad Debts Account and credit the Personal Accounts of the customers who have failed to pay. The Debit Balance of Bad Debts Account represents a loss and will be transferred to Profit and Loss' Account by means of a Journal entry debiting Profit and Loss Account and crediting Bad Debts Account.

Q. 96. *State what you understand by Reserve for Doubtful Debts Account and what entry should be passed in this connection.*

A. After all known Bad Debts have been written off to Profit and Loss Account, it is usual to find that there are still accounts of several customers as to the ultimate recovery of which the dealer begins to feel doubtful. Such Debts are called Doubtful Debts, and in order to arrive at an accurate figure of the net profit made in any particular trading period, it is necessary to provide for Doubtful Debts. This is done by estimating the further loss likely to be sustained on recovery of Book Debts and passing a Journal entry with the amount debiting Profit and Loss Account and crediting Reserve for Doubtful Debts Account. The Reserve for Doubtful Debts Account (Credit Balance) is shown in the Balance Sheet as a deduction from the Asset 'Sundry Debtors' so that the net estimated realisable amount of Sundry Debtors may be shown in the outer column.

It should be clearly understood that the Personal Account of a customer is never written off as a Bad Debt until the amount is found to be absolutely irrecoverable. In case, therefore, where a debt is doubtful of recovery, the Personal Account of the customer concerned would be let untouched and whereas Profit and Loss Account would be debited with such a likely loss, the corresponding credit would be given to a separate account styled Reserve for Doubtful Debts Account.

Q. 97. *Explain what you know of Reserve for Discounts on Debtors and Creditors.*

A. The usual experience of a trader is that a large number of customers is always anxious to take the benefit of the cash discount allowed in return for payment within the stipulated time limit. This being the case, it follows that this loss on recovery of debts arising by way of cash discount to be allowed to those customers who settle their accounts within the pre-

scribed time will have to be estimated and brought into account. The whole underlying object in so doing is to see that the item of Sundry Debtors is not shown in the Balance Sheet at anything beyond its likely realisable amount That is why all Bad Debts have to be written off from the Sundry Debtors, a reasonable provision has to be made in respect of doubtful debts and a fair estimate has also to be made in respect of the loss likely to be suffered by way of discount to be allowed to the customers

At the end of each financial period therefore, it becomes necessary to estimate this loss of discount that will have to be allowed to customers and make a provision in this respect This provision is made by way of a certain percentage being calculated on the total amount of Sundry Debtors at the close of the financial period, and by debiting the Discount Account and crediting Reserve for Discount Account with the amount thus arrived at. The credit balance on the Reserve for Discount Account will then have to be shown by way of deduction from the item 'Sundry Debtors" on the assets side of the Balance Sheet

Reserve for Discounts on Creditors

If a trader constantly receives the benefit of the discount by making payments to his suppliers within the prescribed time limit he would be equally justified in bringing into account the discount that he stands to earn this way This credit for discount is also estimated by way of a certain percentage calculated on the total amount of Sundry Creditors as at the close of the financial period and then passing a Journal entry debiting Reserve for Discount Account and crediting Discount Account with the amount ascertained. The debit balance on Reserve for Discount Account, will be shown by way of deduction from the item of Sundry Creditors on the liabilities side of the Balance Sheet

Q 98 *Where separate provisions are required to be made in respect of Reserve for Doubtful Debts and Reserve for Discounts by way of a percentage on the total amount of Debtors, what is the point to be borne in mind?*

A. Where separate Provisions are required to be made in respect of Reserve for Doubtful Debts and Reserve for Discounts by way of a certain percentage to be calculated on the total amount of Debtors, the required percentage in respect of Reserve for Doubtful Debts should be calculated first on the total amount of the Debtors The amount thus arrived at should then be deducted from the total amount of the Debtors and the balance left would represent the estimated realisable value of the Debtors The required percentage in respect of Reserve for Discounts should then be calculated on this balance, and not on the gross amount of Sundry Debtors.

Q 99 *Should Interest on Capital be calculated before arriving at the Net Profits? Discuss this fully*

A. A businessman naturally expects his business to yield a much better return on the capital employed than would be earned if that same amount were invested in gilt-edged securities. This is because of the extra risks and efforts involved in carrying on the business for the purpose of earning profits. In order to find out, therefore, whether his business has really yielded any profit in excess of the current rate of interest, he charges that interest to his Profit and Loss Account and credits the same to his Capital Account. In other words, the Capital brought in by him is looked upon as if it were a loan granted to the business. The interest on Capital paid by the business to the proprietor is thus a loss or an expense to the business and a gain to the owner.

If any such interest on Capital is to be adjusted at the end of the trading period, a Journal entry has to be passed debiting Interest Account and crediting the Capital Account with the amount of interest chargeable to the business.

Q. 100. *How are amounts withdrawn by the proprietor for personal use dealt with and when and how would interest be charged on such amounts?*

A. A trader generally draws out of his business certain sums of money at his convenience in order to pay expenses not connected with the business. Such withdrawals naturally reduce the capital he had invested in the business, and are, therefore, debited to his Capital Account. In some cases, such "drawings" are debited to a separate account called "Drawings Account," and this account is then closed by transfer to the Capital Account at the end of each trading period.

Where a business is charged with interest on the Capital employed therein, it is but fair that it should also be credited with interest on the money withdrawn by the owner for his personal use.

Interest on all such amounts drawn by the proprietor is, therefore, calculated from the date of withdrawal to the date of the close of the financial period, and the amount thus ascertained is debited to the Capital Account and credited to Interest Account through the Journal. The owner is thus charged with interest on the sums drawn by him and the business gets credit for the same.

Q. 101. *State the points to be borne in mind for the purpose of transferring the following items to the Profit and Loss Account in order to arrive at the true net profit earned during any given period:—*

(a) *Salaries;* (b) *Rent and Taxes;* (c) *Printing and Stationery;* (d) *Advertising;* (e) *Insurance;* (f) *Discounts;* (g) *Interest;* (h) *Commission;* (i) *Travelling Expenses;* (j) *Legal Charges;* (k) *Repairs;* (l) *Trade or Office Expenses.*

A Salaries.—Under this item would be included salaries of the clerical staff and of travellers and managers The whole of the salaries for the period under review must be brought in and for this purpose, salaries if any, due and not paid must be duly provided for

Salaries drawn by the Partners or the Proprietor of the business must be separately shown.

Rent and Taxes —This item would include Office and Warehouse Rent and Municipal and other Taxes It must be seen that Rent for the full trading period is brought into account and if there is any outstanding the same should be duly provided for

If the amount paid for Rent, or Municipal and other Taxes extends over a period beyond the date of the financial close, only the amount of tax relating to the period covered by the accounts need be charged to Profit and Loss Account, and the balance representing a pre-payment should be treated as a temporary asset in the Balance Sheet and carried forward to next year's books

Income-tax paid, if any, should be treated as a Personal Expense and charged to the Drawings Account of the proprietor and not to Profit and Loss Account

If any rent is received on sub-letting of office premises it is desirable that the gross rent paid be shown on the debit side of the Profit and Loss Account and the amount realised from the sub-tenant be shown on the credit

Printing and Stationery —Ordinarily, small amounts expended under this head for office stationery and printing are treated as business expenses and written off to Profit and Loss Account each year

There are businesses, however, which have always a large stock of valuable catalogues and other printing matter and stationery unused at the end of each financial year Such stock may be valued on a conservative basis and be brought into account as an asset in the Balance Sheet

Advertising.—All amounts expended under this head and relating to the period under review must be written off to the Profit and Loss Account

If there be any advertising bills received and not paid, the same must be entered in the books so that the outstanding liability on this account may be brought into record.

If a payment in lump sum is made on account of an advertisement under a contract covering two or three years, the amount attributable to each year should be charged off to Profit and Loss Account as an expense and the balance representing a pre-payment must be carried forward as a temporary asset

If any abnormally heavy amount is expended in any one year with a view to advertise a product on a large scale, the same may be distributed over a number of years which it is expected would reap the benefit of the amount

so expended. This point is further explained under the heading of Deferred Revenue Expenditure.

Insurance.—This item would include Premia paid against Fire or Marine Risks arising in or attendant on business. Such payments usually cover one year's risk from the date of payment and if any such payment extends beyond the financial year, the necessary adjustment in regard to the pre-payment must be made, the amount attributable to the succeeding period being shown as an asset in the Balance Sheet.

Premium paid in respect of a Life Policy of the proprietor must be treated as a personal expense and charged to the Drawings Account.

Discounts.—The item of Discount as is generally found in books of accounts relates to Cash Discount, and not Trade Discount. As has already been explained before, Trade Discount is always shown by way of deduction from the Purchase or Sale Invoice, and the original entry in the Purchase or Sales Book is of the net amount only after deduction of Trade Discount. Evidently, therefore, Trade Discount will not appear in books of accounts.

While showing the item of Cash Discount, it is always desirable to show Discounts Receivable on the credit side of the Profit and Loss Account as a gain and Discount Payable on the debit side as a loss, rather than strike a balance and show it on one side of the Profit and Loss Account.

Interest.—Interest Receivable and Interest Payable must be shown as separate items, the former on the credit side and the latter on the debit side of the Profit and Loss Account.

All interest either receivable or payable should be calculated to the date of the financial close and brought into account. If any gilt-edged securities are held by the business or if any loans are granted, interest accrued thereon to the date of the accounts must be taken credit for. Similarly, interest due on loans borrowed should be calculated to the date of the financial close, and the outstanding liability on this account, if any, should be brought in.

Interest on Proprietor's or Partners' Capital, if any calculated, must be shown separately from other Trade Interest.

Commission.—Commission earned and Commission paid must be shown separately on the credit and debit sides of the Profit and Loss Account.

The outstanding liability in respect of commission due and payable by the business to the date of accounts must be duly adjusted. Similarly, commission earned to date of accounts and not received must be brought in as an accrued income.

Travelling Expenses.—All amounts necessarily expended under this head on account of the business must be written off to Profit and Loss Account. Where Travellers are employed, their last bills in respect of all Travelling Expenses incurred up to the close of the financial period must be obtained and brought into record, even if unpaid.

Legal Charges.—If any legal expenses are incurred in connection with the business during any trading period, the same must be ascertained and charged to Profit and Loss Account, as expenses.

Repairs.—All amounts expended in shape of repairs to existing assets such as Fixtures Plant, Machinery, Tools, etc. should be treated as expenses and written off to Profit and Loss Account. Extensive repairs of a non-recurring nature may be dealt with as explained under the heading of 'Deferred Revenue Expenditure'

Trade Expenses or Office Expenses.—Generally, no distinction is drawn between these two terms and they cover all the small and sundry expenses incurred in course of the business If there appear in the same problem two separate items, one under the heading of "Trading Expenses' or "Trade Expenses and the other 'Office Expenses", the student may safely assume that the former relates to the Trading Account and the latter to the Profit and Loss Account.

Q 102 *What benefit would the proprietor of a business derive by comparing the various figures in the Profit & Loss Account of one period with similar items of the previous period?*

A The critical study of comparative figures in the Trading Account as explained in the previous pages may be extended to the Profit and Loss Account with equal advantage Such a study would no doubt prove of immense benefit to those in management, as apart from disclosing any variation in the percentage of net profit from year to year, it would serve to indicate what increase or decrease there has been in the expenditure or income under any of the heads, and the reasons that account for such fluctuations.

Q 103 *What are Adjusting Entries? Give the usual Adjusting Entries that have to be made at the end of each financial period*

A Adjusting Entries are such as are passed at the end of each trading period for the purpose of adjusting the various Nominal and other accounts in order that the Profit and Loss Account may serve to indicate the true net profit or loss resulting from trading during a given period and that the Balance Sheet may reflect the true financial condition of the business.

The usual Journal Entries necessary to adjust the Nominal Accounts at the end of each financial period are as under —

1 **To provide for outstanding liabilities for expenses.**—

   Debit each Nominal Account concerned, and **credit** Outstanding Creditors' Account.

2 **To adjust expenses paid in advance:**—

   Debit Prepaid Expenses Account, and **credit** the Nominal Account in respect of which the pre-payment is made

3. To adjust income earned and not received:—

   Debit Outstanding Income Account, and credit the Nominal Account representing such income.

4. To adjust income received in advance:—

   Debit the Nominal Account of the income concerned and credit "Income received in Advance Account".

5. To write off Bad Debts:—

   Debit Bad Debts Account, and credit the Personal Accounts of the debtors concerned.

6. To provide for estimated loss in respect of Doubtful Debts:—

   Debit Profit and Loss Account, and credit Reserve for Doubtful Debts Account.

7. To provide for Discounts allowable to Debtors:—

   Debit Discount Account, and credit Reserve for Discounts on Debtors Account.

8. To provide Discounts receivable from Creditors:—

   Debit Reserve for Discounts on Creditors Account, and credit Discount Account.

9. To provide for Depreciation of permanent Assets:—

   Debit Depreciation Account, and credit the account of the Asset to be depreciated.

10. To adjust Interest on Proprietor's Capital:—

    Debit Interest Account, and credit the Proprietor's Capital Account.

11. To adjust Interest on Proprietor's Drawings:—

    Debit the Proprietor's Capital Account, and credit Interest Account.

Q. 104. *What are Closing Entries? Give the usual Closing Entries to be made at the end of each trading period.*

A. Closing Entries are those which are passed at the end of each financial period for the purpose of transferring the various revenue items to the Trading and Profit and Loss Account and thus close the Nominal Accounts concerned.

The usual Closing Entries to be passed at the end of each trading period are as follows:—

1 **For transferring Opening Stock, Purchases, Wages, Carriage Inwards, etc to Trading Account —**

Trading Account Dr
To Stock Account
" Purchase Account
, Wages Account
Carriage Inwards Account

(The effect of this entry will be to close Stock, Purchases, Wages and such other Accounts by transferring them to Trading Account)

2 **For transferring Sales to the Trading Account —**

Sales Account Dr
To Trading Account

(This entry will close the Sales Account)

Note —Before passing the first two entries the Returns Outwards Account will be closed by transfer to the Purchases Account by means of an Entry —

Returns Outwards Account Dr
To Purchases Account

and the Returns Inwards Account will be closed by transfer to the Sales Account thus—

Sales Account Dr
To Returns Inwards Account

The Purchases and the Sales Accounts will then be transferred to the Trading Account at the net figures *minus* the Returns

3 **For bringing the Closing Stock into account —**

Stock Account Dr
To Trading Account

(This stock will appear as an Asset in the Balance Sheet)

4 **For transferring all the Expenses or Losses to the Profit and Loss Account —**

Profit and Loss Account Dr
To each of the various Nominal Accounts which represent expenses or losses

(This entry closes all the expenses accounts)

5 **For transferring all the items of Gain to the Profit and Loss Account.—**

Various Nominal Accounts Dr
(representing different sources of gain)
To Profit and Loss Account

(This entry closes all the remaining Nominal Accounts)

6. **For transferring Net Gain to the Capital Account:—**
   Profit and Loss Account Dr.
   To Capital Account.
   (This entry closes the Profit and Loss Account.)

7. **For transferring Net Loss (if any) to the Capital Account:—**
   Capital Account Dr.
   To Profit and Loss Account.
   (This entry serves to close the Profit and Loss Account.)

8. **For transferring the Proprietor's Drawings to his Capital Account:—**
   Capital Account Dr.
   To Drawings Account.
   (This entry closes the Drawings Account.)

Q. 105. *What is a Balance Sheet and what purpose does it fulfil?*

A. The information conveyed by the Trading and Profit and Loss Account is no doubt very valuable to the owner of a business as it enables him to determine the Gross and Net Profits resulting from his dealings during a certain period. This, however, is not the only point on which a businessman wants to be enlightened. As his Assets and Liabilities change from day to day, as a result of business transactions, he also wants to find out what his true financial position is at the end of each trading period. In the first place, he would like to know whether the net profit as is disclosed by the Profit and Loss Account is correctly arrived at, for if so, his Capital at the end of the period must necessarily increase by that amount. He is equally anxious to see for himself as to how such Capital is locked up, i.e., what the component Assets and Liabilities are of which this Capital is made up. In order. therefore, to obtain this information at the end of the trading period, he has to set out his several Assets and Liabilities as at that date in shape of a statement, and this statement is called the Balance Sheet.

A Balance Sheet may, therefore, be defined as a statement prepared with a view to measure the exact financial position of a business on a certain fixed date. It is prepared from the Trial Balance, after all the balances on Nominal Accounts are transferred to the Trading and Profit and Loss Account and the corresponding Accounts in the Ledger are closed. The balances now left in the Trial Balance and remaining open in the Ledger represent either Personal Accounts or Real Accounts. In other words, they represent either Assets or Liabilities existing at the date of the financial close.

All such Assets and Liabilities are set out in the Balance Sheet in a classified form. On the right-hand side are shown the various Assets or possessions of the business, and on the left-hand side, the various Liabilities, i.e. the amount owing by the business. The excess of Assets over Liabilities then represents the then Capital of the owner. This figure of Capital must tally

with the closing balance of the Capital Account in the Ledger after the net profit or loss has been transferred thereto

Q 106. *Discuss the statement that "The Balance Sheet and the Profit and Loss Account are interdependent on each other".*

A. As the balance of Profit and Loss Account is transferred to the Capital Account, and as the closing balance on the Capital Account is shown in the Balance Sheet, it is clear that the Balance Sheet shows the position inclusive of the profit or loss made during the trading period

The chief object of every Balance Sheet should be to disclose all the information necessary to enable one to form a true estimate of the financial position of the business as a going concern. As the true financial position of any undertaking is reflected by its assets and liabilities as indicated by the Balance Sheet prepared on any one particular date, it follows that these assets and liabilities should be most carefully valued for this purpose Any over-valuation of assets or under-valuation or omission of liabilities would result in unduly inflating the profits Similarly, any under-valuation or omission of assets or over-valuation of liabilities would tend to unnecessarily decrease the profits Even the balance of Profit and Loss Account included in the Balance Sheet should be correctly arrived at It must be further understood that inasmuch as the figure of net profit or net loss as shown by the Profit and Loss Account ultimately finds its place in the Balance Sheet, both these Statements of Final Accounts are closely interdependent on each other It follows, therefore, that if any item of expense or income is omitted or is over or understated, it will not only affect the accuracy of the Net Profit or Loss but will equally affect the correctness of the Balance Sheet For a correct presentation of the true financial condition of a business, it is equally necessary to see that all Assets and Liabilities are fully and accurately set out It is further important to see that these Assets and Liabilities are properly grouped and classified under appropriate headings, and that no material fact is suppressed or is presented in a manner as would create a false impression as to the state of affairs in the mind of one reading the Balance Sheet

Q. 107. *What is the correct basis of valuation of Fixed and Floating Assets for the purpose of their inclusion in a Balance Sheet?*

A. A Balance Sheet is not drawn up with a view to show what the capital of the concern would be worth if the assets were realised and the liabilities paid off, but rather to show how the capital stands invested at the end of each financial period The values in the Balance Sheet are, therefore, not break-up values, but are ascertained on the assumption that the business is not to be wound up in the near future but will continue to run its normal course

As Fixed Assets are acquired not for re-sale but by way of permanent equipment to serve as a medium to enable the business being carried on, they should not be valued on the basis of the price they would realise if sold The

true basis of valuation for such assets would be their original cost, their probable "life", i.e. the estimated period of usefulness to the business and the likely break-up value. The difference between the original cost and the probable break-up value would represent the loss suffered by the business on account of the use of such assets, and would have, therefore, to be equitably distributed over the estimated life of such assets. In other words, each fixed asset would be shown in the Balance Sheet at its original cost *minus* such accumulated depreciation or deterioration in value it may have undergone upto the date of the Balance Sheet.

Floating Assets, on the other hand, are held for re-sale with a view to profit or for immediate conversion into cash, and are, therefore, valued at the cost or the current market price whichever is lower at the date of the Balance Sheet. But both the fixed and floating assets should be valued on the basis of a going concern.

Thus, whereas fixed or permanent assets are unaffected by market fluctuations and are always valued from the standpoint of their utility to the concern owning them, the values of floating or circulating assets are always modified by market fluctuations for the reason that as these are liable to be converted into cash at the earliest possible opportunity, they should not be assessed in the Balance Sheet at anything more than they are likely to realise, even though they may have cost more.

Q. 108. *In what order should the Assets and Liabilities be set forth while preparing a Balance Sheet?*

A. There is no hard-and-fast rule as to the order in which the assets and liabilities of a sole trader or a partnership firm should be stated in the Balance Sheet. One method is to place the most easily realisable asset first and then follow it up by assets which are less easily realisable, so that the asset most difficult of realisation will be shown last. As against this order of the assets, the liabilities will be shown in the order in which they are payable, the most pressing liability being placed first. The Balance Sheet will then appear as under:—

BALANCE SHEET

LIABILITIES	Rs.	ASSETS	Rs.
Bills Payable	....	Cash in Office	....
Creditors for Loans	....	Cash at Bank	....
Creditors on Open Accounts ..	....	Investments	....
Outstanding Liabilities for Expenses ..	....	Sundry Debtors	....
Capital	....	Bills Receivable	....
		Stock-in-Trade	....
		Loose Tools	....
		Fixtures and Fittings	....
		Plant and Machinery	....
		Factory Building	....
		Goodwill	....
Rs.	....	Rs.	....

The other method is to marshal the assets and liabilities in exactly the reverse order to the above, so that the fixed and permanent assets and liabilities appear first and will be followed by floating assets and liabilities This arrangement now seems to be followed by almost all concerns except Banks and Financial Houses which prefer to show the liquid and floating assets first and follow them up with the fixed assets It should be noted that while preparing the Balance Sheet of a Limited Company, it is this order of assets and liabilities that is required to be rigidly observed by the prescribed form of Balance Sheet under the Indian Companies Act

Note —The student should carefully study the method of dating the Final Accounts which is an important point The Trading and Profit and Loss Account, being a summary of the transactions relating to trading during a given period, should always be headed this way—

TRADING AND PROFIT AND LOSS ACCOUNT

For the year ended

On the other hand, the Balance Sheet, being a list of balances outstanding on the books of a trader on a particular date, should be headed this wise—

BALANCE SHEET

As at

The name of the trader should also always appear at the head of the Final Accounts

Q. 109. *Set out the important points in connection with the following items in order that they be included in the Balance Sheet, at their true values —*

(a) *Cash at Bank,* (b) *Investments,* (c) *Sundry Debtors,* (d) *Bills Receivable,* (e) *Stock-in-trade*

A. (a) Cash at Bank.—This item would represent the Bank Balance as shown by the Bank Columns of the Cash Book. If this balance differs from the Bank Balance as per the Pass Book, a Reconciliation Statement would have to be prepared to verify its correctness

(b) Investments —Ordinarily, these will appear at cost price, and temporary fluctuations in value need not be brought into account If, however, the market value shows a tendency towards a permanent fall, it would be advisable to provide for such depreciation in the value of the investments In any case, the basis of valuation, cost or market price, should be clearly indicated on the Balance Sheet When the market value of the investments is lower than the cost price and the investments are shown as cost it is desirable to append a note in the Balance Sheet stating what the then market value was

Any provision made in regard to the loss in value of investments should be shown by way of deduction from the book value of the investments.

If the investments consist of gilt-edged securities as also stocks and shares, the value of each of these should be separately shown under distinct sub-heads.

Accrued interest, if any due, on these investments upto the period covered by the account should be calculated and brought into account.

(c) **Sundry Debtors.**—This item always means the sum total of the amounts owing from the Trade Debtors, i.e. the Customers. If there are any Debtors for Loans granted by the trader such Loan Debtors should be distinguished from the Trade Debtors. All debts known to be bad and irrecoverable must be written off. The provision, if any, made for Doubtful Debts as also for Discounts on Debtors should be shown by way of deduction from the book value of the debtors in order that the estimated realisable value of this asset may appear in the outer column.

(d) **Bills Receivable.**—This item will represent Bills Receivable not matured at the date of the Balance Sheet. If there is any overdue bill, the same would be reversed to the personal account of the acceptor concerned and a provision in regard to such doubtful debt should be made, if necessary.

(e) **Stock-in-Trade.**—This item should be very carefully valued and any over-valuation should be guarded against. The basis accepted as sound and correct is cost or market price, whichever be the lower at the date of the Balance Sheet. Cost price would necessarily include the Invoice Price *plus* Duty, Freight, Carriage Inwards, etc. The basis of valuation should be indicated on the Balance Sheet. Proper allowance should be made while valuing unsaleable or damaged stock.

Q. 110. *How should the following Assets be valued for the purpose of Balance Sheet:—*

(a) *Patents, Copy-rights and Trade Marks;* (b) *Furniture and Fixtures;* (c) *Loose Tools;* (d) *Plant and Machinery;* (e) *Freehold Land and Building; and* (f) *Leasehold Land and Building?*

A. (a) **Patents, Copy-rights, Trade Marks, etc.**—These and similar assets should be valued on most conservative basis. The whole cost of Patents or Copy-rights should be written off within the period of their life, but if any of these are obsolete and cannot be utilised or if the products prove to be unsaleable, the values of such Patents, Copy-rights, etc. should be ignored for the purpose of Balance Sheet valuation. In other words, these assets should not appear in the Balance Sheet at anything beyond their utility values to the concern in question.

(b) **Furniture and Fixtures**—These should be brought in the Balance Sheet at the original cost less a reasonable amount in respect of depreciation

(c) **Loose Tools**—These are generally re-valued at the end of each year and the difference between the book value and the valuation figure is written off as depreciation

(d) Plant and Machinery —This item must be shown at its original cost in the inner column and the provision in regard to depreciation should appear by way of deduction from the cost It is not a desirable method to show the asset at the cost price on the assets side, and the provision in respect of depreciation on the liabilities side The advantage of showing the depreciation amount by way of deduction from the original cost lies in the fact that the present utility value of the asset can be seen at a glance Once the entire cost of equipment and installation under this head is debited to this account, it should be seen that only purchases of additional plant and amounts expended on improvements resulting in enhancement of the revenue-earning capacity of the existing plant are subsequently capitalised All other amounts expended by way of renewals, replacements or repairs to maintain the plant in its original efficiency will be charged off to revenue

(e) **Freehold Land and Building**—It is desirable to distinguish between Freehold and Leasehold Property The asset should be shown at the original cost *less* a reasonable percentage in respect of depreciation on building Freehold land as a rule, does not depreciate If the value of such asset has appreciated, it is not desirable to bring up the book value to its present market price and thus take credit for an unrealised profit

(f) **Leasehold Land and Building**—The original cost as also any additions to such asset should be written off during the period of the lease, so that by the time the lease expires, its book value also may be reduced to zero Repairs should be charged off to Revenue Account of the year in which they are made

Q 111. *How should the various Liabilities and the Proprietor's Capital be shown in the Balance Sheet?*

A. The amount owing to suppliers of goods at the end of the financial period is usually shown under the heading of Trade Creditors or Creditors on Open Accounts Creditors for Loans borrowed, Bank Overdraft and Outstanding Liabilities for Expenses should each be shown under the distinct heading Creditors holding any securities from the trader must be separately shown with a statement of the securities pledged or assets mortgaged

The difference between the total of the assets and the total of the liabilities as at the date of the Balance Sheet will represent the Capital of the trader as at that date This item will have to be shown in details as under

Capital at the commencement of the period		......	
Add further amount brought in		......	
„ interest on the Capital		......	
„ net profit		......	
		———	
Less Withdrawals	......		
„ Interest on withdrawals	......		
	———	......	
		———	......

Q. 112. *The following are the balances extracted from the books of N. Abdulla as on 31st December* 1966:—

	Rs		Rs.
Capital Account	90,000	Bad Debts Reserve (1st January 1966)	3,240
Drawings	7,600	Taxes and Insurance	1,300
Purchases	89,470	Discount Account (Cr)	190
Purchases Returns	4,240	Bills Receivable	1,240
Sales	1,49,840	Sundry Debtors	62,970
Sales Returns	2,820	Sundry Creditors	16,980
Stock (1st January 1966)	11,460	Cash at Bank	12,400
Salaries and Wages	6,280	Cash in hand	2,210
Buildings	25,000	Office Furniture	3,500
Freight and Clearing Charges	16,940	Travellers' Salaries & Commission	9,870
Carriage Inwards	2,310	Additions to Buildings	7,000
Office Expenses	1,340	Rent Recovered	2,100
Printing and Stationery	660		
Postage and Telegrams	820		
Bad Debts	1,400		

You are required to pass the necessary adjusting and closing entries and to prepare Trading and Profit and Loss Account for the year ended 31st December 1966 and a Balance Sheet as on that date, after making the following adjustments.

1. Depreciate Building by 2½% and Office Furniture by 5%.
2. Reserve for Bad Debts to be made upto Rs. 4,000.
3. Salaries outstanding for December 1966 Rs 570.
4. Rent recoverable Rs. 200.
5. 5% Interest to be charged on Capital.
6. The value of stock on 31st December 1966 was Rs. 14,290.
7. The unexpired insurance amounted to Rs. 240.

A The following are the Adjusting Entries to be passed —

JOURNAL ENTRIES

		L.F	Rs.	Rs.
Depreciation Account To Buildings „ Office Furniture (Being the provision for depreciation on Buildings at $2\frac{1}{2}\%$ and Office Furniture at 5%)	Dr		800	625 175
Reserve for Doubtful Debts To Bad Debts (Being transfer of Bad Debts to the former account.)	Dr		1 400	1 400
Profit & Loss Account To Reserve for Doubtful Debts (Being the charge on the Profit and Loss Account to bring the Reserve to the required amount.)	Dr		2 160	2 160
Salaries and Wages Account To Outstanding Creditors Account (Being the amount of Salaries due for the month of December brought into account.)	Dr		570	570
Outstanding Debtors Account To Rent Account (Being the amount of rent recoverable brought into account.)	Dr		200	200
Interest Account To Capital Account (Being the amount of interest allowed on Capital at 5%)	Dr		4,500	4,500
Prepaid Expenses Account To Taxes and Insurance Account (Being the amount of unexpired insurance adjusted.)	Dr		240	240
Purchases Returns Account To Purchases Account (Being the transfer of Purchases Returns to the latter account.)	Dr		4,240	4,240
Sales Account To Sales Returns (Being the transfer of Sales Returns to Sales Account.)	Dr		2 820	2,820

The following are the Closing Entries to be passed —

JOURNAL ENTRIES

		L.F	Rs	Rs.
Trading Account To Stock Account „ Purchases Account „ Freight and Clearing Charges „ Carriage Inwards (Being the transfer of the latter accounts to the former)	Dr		1 15,940	11 460 85,230 16 940 2,310

JOURNAL ENTRIES—*contd.*

	L.F.	Rs.	Rs.
Sales Account .. .. Dr.		1,47,020	
To Trading Account			1,47,020
(For transfer of the sales to the latter account.)			
Stock Account .. .. Dr.		14,290	
To Trading Account			14,290
(Being the entry to bring the Closing Stock into account.)			
Profit and Loss Account .. .. .. Dr.		25,900	
To Salaries and Wages			6,850
" Travellers' Salaries and Commission			9,870
" Office expenses			1,340
" Taxes and Insurance			1,060
" Printing and Stationery			660
" Postage and Telegrams			820
" Interest on Capital			4,500
" Depreciation Account			800
(Being the transfer of various expenses accounts to Profit and Loss Account.)			
Rent Account .. .. Dr.		2,300	
Discount Account .. .. "		190	
To Profit and Loss Account			2,490
(Being the transfer of former accounts to the latter account.)			
Profit and Loss Account .. .. .. Dr.		19,800	
To Capital Account			19,800
(Being the transfer of net Profit to Capital Account.)			
Capital Account .. .. Dr.		7,600	
To Drawings Account			7,600
(Being the transfer of total drawings to the Capital Account.)			

N. ABDULLA

(For Profit and Loss Account, see next page.)

BALANCE SHEET

As at 31st December 1966

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Sundry Creditors :—			Cash in Hand	2,210	
On Open Accounts ..	16,980		Cash at Bank	12,400	14,610
Outstanding for Expenses	570		Bills Receivable ..	..	1,240
		17,550	Sundry Debtors ..	62,970	
Capital Account :—			*Less* Reserve for Doubtful Debts ..	4,000	58,970
Balance on 1st January 1966	90,000		Debtors for Rent ..	..	200
Add Interest	4,500		Stock-in-Trade ..	..	14,290
" Profit during the year	19,800		Office Furniture ..	3,500	
	1,14,300		*Less* Depreciation @ 5%	175	3,325
Less Drawings during the year ..	7,600	1,06,700	Buildings	25,000	
			Add Additions during the year	7,000	
				32,000	
			Less Depreciation @ 2½%	625	31,375
			Expenses Prepaid ..	..	240
Rs.		1,24,250	Rs.		1,24,250

TRADING AND PROFIT AND LOSS ACCOUNT

For the year ended 31st December 1966

	Rs.	Rs		Rs	Rs
To Stock, 1 1 1966		11 460	By Sales	1 49 840	
„ Purchases	89 470		*Less* Returns	2,820	
Less Returns	4,240				1 47 020
		85,230	„ Stock—31-12 1966		14,290
„ Freight and Clearing Charges		16,940			
„ Carriage Inwards		2,310			
„ Gross Profit carried down		45 370			
	Rs	1 61,310		Rs.	1 61,310

		Rs		Rs
To Salaries and Wages		6 850	By Gross Profit b/d	45,370
„ Travellers Salaries & Commission		9 870	„ Rent	2,300
„ Office Expenses		1 340	„ Discount	190
„ Taxes and Insurance		1 060		
„ Printing and Stationery		660		
„ Postage and Telegrams		820		
„ Reserve for Doubtful Debts	Rs			
Amount Required	4 000			
Add Bad Debts	1 400			
	5 400			
Less Old Reserve	3,240			
		2 160		
„ Interest on Capital @ 5%		4,500		
„ Depreciation —				
On Buildings 2½%	625			
On Office Furniture 5%	175			
		800		
„ Net Profit transferred to Capital Account		19 800		
	Rs.	47 860	Rs	47 860

Q 113 *The following is the Trial Balance of R Rustomji as at 30th June 1966 You are asked to pass the necessary Adjusting and Closing Entries and to prepare the Trading and Profit and Loss Account and Balance Sheet as at that date*

TRIAL BALANCE

	Dr Rs	Cr Rs
R Rustomji s Capital Account		1 08 090
Stock on 1st July 1965	46 800	
Sale and Sales Returns	8 600	2,89 600
Purchases and Purchases Returns	2 43 100	5 800
Freight and Carriage	18 600	
Rent and Taxes	5 700	
Salaries and Wages	9 300	
Sundry Debtors	24 000	
„ Creditors		14 800
Bank Loan at 6 per cent		20 000
Bank Interest	900	
Printing and Advertising	14 600	
Income from Investments		250
Cash at Bank	8,200	
Discounts Receivable		3 690
Investments	5 000	
Furniture and Fittings	1 800	

TRIAL BALANCE—*contd*

	Dr. Rs.	Cr. Rs.
Discounts Payable	7,340	
General Expenses	3,610	
Audit Fees	500	
Insurance	800	
Travelling Expenses	2,130	
Postage and Telegrams	870	
Cash in hand	380	
Deposit with M. Maneckji at 5 per cent	30,000	
Drawings Account	10,000	
Rs.	4,42,230	4,42,230

Stock on 30th June 1966 was Rs. 78,600. 50 per cent of Printing and Advertising is to be carried forward as a charge in the following year. Depreciate Furniture and Fittings by 10 per cent. Create 5 per cent Reserve on Debtors. Reserve 2 per cent for discount on Debtors and Creditors. Insurance prepaid amounts to Rs. 200, and Salaries outstanding Rs. 500 and Carriage outstanding Rs. 100. Charge full year's interest on deposit with M. Maneckji.

A. The following are the Adjusting Entries to be passed:—

JOURNAL ENTRIES

	L.F.	Rs.	Rs.
Profit and Loss Account .. .. . Dr.		7,300	
To Printing and Advertising			7,300
(Being half the amount incurred under the above head written off to Profit and Loss Account, the balance being carried forward to next year.)			
Depreciation Account .. .. .. Dr.		180	
To Furniture and Fittings			180
(Being the provision for depreciation at 10 per cent on the latter account.)			
Profit and Loss Account .. .. .. Dr.		1,200	
To Reserve for Doubtful Debts			1,200
(Being the provision for Doubtful Debts created at 5 per cent on Sundry Debtors of Rs. 24,000)			
Discount Account .. .. .. Dr.		456	
To Reserve for Discounts on Debtors			456
(Being provision for Discounts at 2 per cent on Debtors of Rs. 24,000 *less* Reserve for Doubtful Debts of Rs. 1,200)			
Reserve For Discounts on Creditors .. .. Dr.		296	
To Discount Account			296
(Being the provision for Discounts at 2 per cent on Creditors of Rs. 14,800.)			
Prepaid Expenses Account .. .. .. Dr.		200	
To Insurance Account			200
(Being the entry to adjust unexpired Insurance.)			

JOURNAL ENTRIES—*contd*

		L.F	Rs.	Rs.
Salaries and Wages Account Freight and Carriage Account To Outstanding Creditors (Being the provision of expenses outstanding on the former accounts)	Dr "		500 100	 600
Interest Account To Bank Loan Account (Being the provision for interest outstanding on the *latter account*)	Dr		300	 300
Deposit with M Maneckji Account To Interest Account (Being the entry to adjust interest at 5 per cent due on the former account for one year)	*Dr*		*1 500*	 1,500
Purchases Returns To Purchases Account (Being the transfer of purchases returns to the latter account)	Dr		5 800	 5 800
Sales Account To Sales Returns Account (Being the transfer of Sales Returns to Sales Account)	Dr		8 600	 8 600

The following are the Closing Entries —

JOURNAL ENTRIES

		L.F	Rs	Rs
Trading Account To Stock Account " Purchases Account " Freight and Carriage Account (Being the transfer of the latter accounts to the former accounts)	Dr		3 02,800	 46,800 2,37 300 18 700
Sales Account To Trading Account (Being the transfer of Sales to the latter account.)	Dr		2 81 000	 2 81 000
Stock Account To Trading Account (Being the entry to bring the closing stock into account.)	Dr		78 600	 78 600
Profit and Loss Account To Salaries and Wages Account " Rent and Taxes Account " Discount Account " General Expenses Account " Travelling Expenses Account " Postage and Telegrams Account " Insurance Account " Audit Fees Account " Depreciation Account (Being the transfer of various expenses accounts to Profit and Loss Account.)	Dr		31 186	 9 800 5 700 7 796 3 610 2 130 870 600 500 180

JOURNAL ENTRIES—*contd.*

		L.F.	Rs.	Rs.
Discount Account	Dr.		3,986	
Income from Investment	„		250	
Interest Accoount	„		300	
To Profit and Loss Account				4,536
(Being the transfer of various gains to Profit and Loss Account.)				
Profit and Loss Account	Dr.		21,650	
To Capital Account				21,650
(Being the transfer of net profit to Capital Account.)				
Capital Account	Dr.		10,000	
To Drawings Account				10,000
(Being the transfer of Drawings Account to the former Account.)				

R. RUSTOMJI

TRADING AND PROFIT AND LOSS ACCOUNT

For the year ended 30th June 1966

	Rs.	Rs.		Rs.	Rs.
To Stock, 1-7-65		46,800	By Sales ..	2,89,600	
„ Purchases ..	2,43,100		*Less* Returns ..	8,600	
Less Returns ..	5,800				2,81,000
		2,37,300	„ Stock, 30th June 1966 ..		78,600
„ Freight and Carriage ..		18,700			
„ *Gross Profit c/d.* ..		*56,800*			
	Rs.	3,59,600		Rs.	3,59,600

	Rs.		Rs.
To Salaries and Wages ..	9,800	By *Gross Profit b/d.* ..	56,800
„ Rent and Taxes ..	5,700	„ Discounts Receivable ..	3,986
„ Printing and Advertising ..	7,300	„ Income from Investments ..	250
„ Discounts Payable ..	7,796	„ Interest Account ..	300
„ General Expenses ..	3,610		
„ Reserve for Doubtful Debts ..	1,200		
„ Travelling Expenses ..	2,130		
„ Postage and Telegrams ..	870		
„ Insurance ..	600		
„ Audit Fees ..	500		
„ Depreciation Account:— Furniture and Fittings 10% ..	180		
„ Net Profit transferred to Capital Account ..	21,650		
Rs.	61,336	Rs.	61,336

R. RUSTOMJI

BALANCE SHEET

As at 30th June 1966

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Sundry Creditors	14,800		Cash in Hand		380
Less Reserve for discounts on creditors	296	14,504	" at Bank		8,200
			Investments		5,000
Outstanding Creditors for Expenses		600	Stock-in-Trade		8,600
Bank Loan	20,000			Rs.	
Add Interest	300	20,300	Deposit with M. Maneckji	30,000	
			Add Interest due	1,500	31,500
Capital Account —					
Balance on 1st July 1965	1,08,090		Sundry Debtors	24,000	
Add Net Profit during the year	21,650		*Less* Reserve for Doubtful Debts at 5 per cent	1,200	
	1,29,740			22,800	
Less Drawings	10,000	1,19,740	*Less* Reserve for Discounts at 2 per cent	456	22,344
			Furniture and Fittings	1,800	
			Less Depreciation at 10 per cent	180	1,620
			Printing and Advertising	14,600	
			Less written off 50 per cent	7,300	7,300
			Prepaid Expenses		200
	Rs.	1,55,144		Rs.	1,55,144

Q. 114. *On 31st March 1967, the following Trial Balance of R Ramrao was taken out Pass the adjusting and closing entries and prepare Final Accounts for the year, after making the following adjustments —*

(a) Depreciation —5 per cent off Plant and Machinery and 10 per cent off Fixtures and Fittings.

(b) Reserve for Bad Debts $2\frac{1}{2}$ per cent on Sundry Debtors

(c) Reserve for March rent Rs 150

(d) Insurance unexpired on 31st March 1967 Rs. 70

(e) Outstanding Wages and Salaries Rs 800 and Rs 350 respectively

(f) Stock 31st March 1967 Rs 16,580

TRIAL BALANCE

Debits	Rs.	*Credits*	Rs.
Plant and Machinery	55,000	R. Ramrao's Capital Account ..	93,230
Fixtures and Fittings	1,720		
Factory Fuel and Power	542	Sales	1,26,177
Office Salaries	3,745		
Lighting (Factory)	392	Sundry Creditors	22,680
Travelling Expenses .. .	925		
Carriage on Sales	960	Purchases Returns .. .	3,172
Cash at Bank	2,245		
Cash in Hand	68	Bills Payable	6,422
Sundry Debtors	47,800		
Purchases	83,290		
Manufacturing Wages	9,915		
Rent and Taxes	1,765		
Office Expenses	2,778		
Carriage on Purchases	897		
Discount	422		
Drawings Account	6,820		
Stock on 1st April 1966	21,725		
Manufacturing Expenses	2,680		
Sales Returns	7,422		
Insurance	570		
Rs.	2,51,681	Rs.	2,51,681

A. The following are the Adjusting Entries:—

JOURNAL ENTRIES

		L.F.	Rs.	Rs.
Depreciation Account	Dr.		2,422	
To Plant & Machinery				2,250
„ Fixtures & Fittings				172
(Being provision for depreciation on Plant and Machinery at 5% & Fixtures & Fittings @ 10%.)				
Profit and Loss Account	Dr.		1,195	
To Reserve for Doubtful Debts Account				1,195
(Being provision for Doubtful Debts created at 2½% on Sundry Debtors of Rs. 47,800.)				
Rent and Taxes Account	Dr.		150	
Manufacturing Wages Account	„		800	
Salaries Account	„		350	
To Outstanding Creditors Account				1,300
(Being the provision for expenses outstanding on 31st March 1967.)				
Prepaid Expenses Account	Dr.		70	
To Insurance Account				70
(Being the entry to adjust unexpired Insurance.)				
Purchases Returns Account	Dr.		3,172	
To Purchases Account				3,172
(Being the transfer of Purchases Returns to the latter account.)				
Sales Account	Dr.		7,422	
To Sales Returns				7,422
(Being the transfer of Sales Returns to the former Account.)				

The following are the Closing Entries to be passed.—

JOURNAL ENTRIES

		LF	Rs.	Rs.
Trading Account	Dr		1,17,069	
To Stock Account				21,725
„ Purchases Account				80 118
„ Manufacturing Wages Account				10 715
„ „ Expenses „				2,680
„ Carriage on Purchases „				897
„ Fuel and Power „				542
„ Factory Lighting „				392
(Being the transfer of latter accounts to the former Account.)				
Sales Account	Dr		1 18 755	
To Trading Account				1 18,755
(Being the transfer of Sales to the latter Account.)				
Stock Account	Dr		16,580	
To Trading Account				16,580
(Being the entry to bring the closing stock into Account.)				
Profit and Loss Account	Dr		14 017	
To Salaries Account				4 095
„ Office Expenses Account				2 778
„ Rent and Taxes Account				1,915
„ Carriage Outwards Account				960
„ Travelling Expenses Account				925
„ Insurance Account				500
„ Discount				422
„ Depreciation Account				2,422
(Being the transfer of various expenses accounts to the Profit and Loss Account.)				
Profit and Loss Account	Dr		3 054	
To Capital Account				3 054
(Being the transfer of net profit to Capital Account.)				
Capital Account	Dr		6 820	
To Drawings Account				6,820
(Being the transfer of Drawings Account to the former Account.)				

R. RAMRAO

TRADING AND PROFIT AND LOSS ACCOUNT

For the year ended 31st March 1967

	Rs.	Rs.		Rs.	Rs.
To Stock, 1-4-1966		21,725	By Sales	1,26,177	
„ Purchases	83,290		*Less* Returns	7,422	1 18 755
Less Returns	3,172	80 118	„ Stock 31st March 1967		16,580
„ Manufacturing Wages		10,715			
„ „ Expenses		2,680			
„ Carriage on Purchases		897			
„ Fuel and Power		542			
„ Factory Lighting		392			
„ Gross Profit c/d.		18,266			
	Rs.	1,35,335		Rs.	1,35,335

TRADING AND PROFIT AND LOSS ACCOUNT—*contd.*

	Rs.	Rs.		Rs.
To Salaries ..		4,095	By Gross Profit b/d. ..	18,266
„ Office Expenses ..		2,778		
„ Rent and Taxes ..		1,915		
„ Carriage Outwards ..		960		
„ Travelling Expenses ..		925		
„ Insurance ..		500		
„ Discount ..		422		
„ Reserve for Doubtful Debts ..		1,195		
„ Depreciation :—				
Plant & Machinery at 5%	2,250			
Fixtures & Fittings at 10%	172			
		2,422		
„ Net Profit transferred to Capital Account ..		3,054		
Rs.		18,266	Rs.	18,266

BALANCE SHEET

As at 31st March 1967

Liabilities	Rs.	Rs.	*Assets*	Rs.	Rs.
Sundry Creditors :—			Cash in Hand ..	.	68
For Bills Payable ..	6,422		„ at Bank ..	..	2,245
On Open Accounts ..	22,680		Sundry Debtors ..	47,800	
Outstanding for Expenses	1,300		*Less* Reserve for Doubtful		
		30,402	Debts at 2½ per cent ..	1,195	
Capital Account :—					46,605
Balance on 1st April 1966	93,230		Stock	..	16,580
Add Net Profit during			Fixtures and Fittings ..	1,720	
the year ..	3,054		*Less* Depreciation at 10		
			per cent ..	172	
	96,284				1,548
Less Drawings during			Plant & Machinery ..	55,000	
the year ..	6,820		*Less* Depreciation at 5		
		89,464	per cent ..	2,250	
					52,750
			Prepaid Expenses ..	..	70
Rs.		1,19,866	Rs.		1,19,866

Q. 115. *From the following Trial Balance of A. Adamji, prepare Trading and Profit and Loss Account (after passing the requisite Adjusting and Closing Entries), for the year ended 31st December 1966 and a Balance Sheet as on that date:—*

[*For Trial Balance, see next page.*]

Adjustments:—

1. Stock on 31st December 1966 Rs. 29,630.
2. Depreciation—Plant & Machinery 10 per cent.
3. Fixtures & Fittings 5 per cent, Horses and Carts Rs. 1,000.
4. Bring Reserve for Bad and Doubtful Debts to 5%.
5. Unexpired Insurance Rs. 300 and Taxes Rs. 190.
6. A commission of 1 per cent of the Gross Profit to be provided for Works Manager.
7. A commission of 5% of the Net Profit (after charging the Works Manager's commission) to be credited to the General Manager.

TRIAL BALANCE

Debits	Rs	Credits	Rs
Plant and Machinery	19,720	A Adamji's Capital Account	80,000
Manufacturing Wages	34,965	Sundry Creditors	54,160
Salaries	15,965	Bank Loan	10,000
Fixtures and Fittings	9,480	Purchases Returns	1,140
Carriage Inwards	1,980	Sales	2,46,850
„ Outwards	2,150	Reserve for Bad and Doubtful Debts	2,000
Freehold Works	25,000		
Manufacturing Expenses	9,455		
Insurance and Taxes	4,175		
Goodwill	30,000		
General Expenses	8,142		
Factory Fuel & Power	1,276		
Sundry Debtors	78,140		
Lighting—Factory	986		
Stable Expenses for distribution	2,473		
Stock 1st January 1966	34,170		
Horses and Carts	5,165		
Purchases	97,165		
Sales Returns	3,170		
Discount	928		
Bad Debts	1,485		
Interests and Bank Charges	475		
Cash at Bank	7,540		
Cash in hand	145		
Rs	3,94,150	Rs	3,94,150

A. The following are the Adjusting Entries —

JOURNAL ENTRIES

	L.F	Rs P	Rs. P.
Depreciation Account . . Dr		3,446 00	
To Plant & Machinery Account			1,972.00
„ Furniture & Fittings „			474 00
„ Horses and Carts „			1,000.00
(Being the provision for depreciation on Plant and Machinery at 10 per cent, Furniture & Fittings at 5 per cent, and Horses and Carts Rs 1,000)			
Reserve for Doubtful Debts Account . Dr		1,485 00	
To Bad Debts Account			1,485 00
(Being the transfer of Bad Debts to the former Account.)			
Profit and Loss Account .. . . Dr		3,392 00	
To Reserve for Doubtful Debts			3,392.00
(Being the charge on the Profit and Loss Account to bring the Reserve to 5 per cent on *Debtors of Rs 78,140*)			

JOURNAL ENTRIES—*contd.*

	L.F.	Rs. P.	Rs. P.
Prepaid Expenses Account .. .. .. Dr.		490.00	
To Insurance and Taxes Account			490.00
(Being the entry to adjust unexpired insurance and taxes.)			
Commission Account .. .. .. Dr.		3,587.15	
To Outstanding Creditors			3,587.15
(Being the amount of commission due to Works and General Manager provided for as follows :— Rs. P.			
1 per cent on Gross Profit of Rs. 94,453 to Works Manager . .. 944.53			
5 per cent on Net Profit of Rs. 52,852.47 to General Manager .. .. 2,642.62.)			
Purchases Returns .. .. Dr.		1,140.00	
To Purchases Account			1,140.00
(Being the transfer of Purchases Returns to the latter Account.)			
Sales Account .. .. Dr.		3,170.00	
To Sales Returns Account			3,170.00
(Being the transfer of Sales Returns to the former Account.)			

The following are the Closing Entries to be passed:—

JOURNAL ENTRIES

	L.F.	Rs. P.	Rs. P.
Trading Account .. .. Dr.		1,78,857.00	
To Stock Account			34,170.00
„ Purchases Account			96,025.00
„ *Manufacturing* Wages Account			34,965.00
„ Manufacturing Expenses Account			9,455.00
„ Carriage Inwards Account			1,980.00
„ Fuel and Power Account			1,276.00
„ Factory Lighting Account			986.00
(Being the transfer of the latter accounts to the former.)			
Sales Account .. .. Dr.		29,630.00	
To Trading Account			29,630.00
(Being the entry to bring the Closing Stock into Account.)			
Profit and Loss Account .. .. .. Dr.		40,851.15	
To Salaries Account			15,965.00
„ General Expenses Account			8,142.00
„ Stable Expenses Account			2,473.00
„ Carriage Outwards Account			2,150.00
„ Insurance and Taxes Account			3,685.00
„ Discount Account			928.00
„ Interest and Bank Charges Account			475.00
„ Depreciation Account			3,446.00
„ Commission Account			3,587.15
(Being the transfer of various nominal accounts to Profit and Loss Account.)			
Profit and Loss Account .. .. .. Dr.		50,209.85	
To Capital Account			50,209.85
(Being the transfer of net Profit to Capital Account.)			

A ADAMJI
TRADING AND PROFIT AND LOSS ACCOUNT
For the year ended 31st December 1966

	Rs	Rs P		Rs	Rs P
To Stock 1 1 1966		34 170 00	By Sales	2 46 850	
			Less Returns	3 170	2 43 680 00
„ Purchases	97 165				
Less Returns	1 140	96 025 00	Stock 31st December 1966		29 630 00
Manufacturing Wages		34 965 00			
„ Manufacturing Expenses		9 455 00			
Carriage Inwards		1 980 00			
Fuel and Power		1 276 00			
Factory Lighting		986 00			
Gross Profit c/d		94 453 00			
	Rs	2 73 310 00		Rs	2 73 310 00

	Rs P	Rs P		Rs P
To Salaries		15 965 00	By Gross Profit b d	94 453 00
General Expenses		8 142.00		
Stable Expenses		2 473 00		
Carriage Outwards		2,150 00		
Insurance and Taxes		3 685 00		
Discount		928 00		
Interest and Bank Charges		475 00		
Reserve for Doubtful Debts	3 907 00			
Add Bad Debts	1 485 00			
	5 392 00			
Less Old Reserve	2 000 00	3 392 00		
Depreciation — Plant & Machinery 10%	1 972.00			
Fixtures & Fittings 5%	474 00			
Horses & Carts	1 000 00	3 446 00		
„ Commission — Works Manager at 1%	944 53			
General Manager at 5%	2 642 62	3 587 15		
Net Profit transferred to Capital Account		50,209 85		
	Rs	94 453 00	Rs	94 453 00

BALANCE SHEET

As at 31st December 1966

Liabilities		Rs. P.	*Assets*		Rs. P.
Sundry Creditors :—	Rs. P.		Cash in Hand		145.00
On Open Accounts ..	54,160.00		Cash at Bank		7,540.00
Outstanding for Expenses	3,587.15	57,747.15	Sundry Debtors ..	Rs. 78,140	
Bank Loan		10,000.00	*Less* Reserve for Doubtful Debts @ 5% ..	3,907	74,233.00
Capital Account :—			Stock		29,630.00
Balance on 1-1-1966 ..	80,000.00		Furniture and Fittings ..	9,480	
Add Net Profit during the year ..	50,209.85	1,30,209.85	*Less* Depreciation @ 5%	474	9,006.00
			Horses and Carts ..	5,165	
			Less Depreciation written off ..	1,000	4,165.00
			Plant and Machinery ..	19,720	
			Less Depreciation @ 10% ..	1,972	17,748.00
			Freehold Works		25,000.00
			Goodwill		30,000.00
			Expenses Prepaid		490.00
Rs.		1,97,957.00	Rs.		1,97,957.00

Q. 116. *From the following balances extracted from the books of J. Jehangir on 30th June 1967, prepare Final Accounts after making entries in regard to the following adjustments and the closing of accounts.*

Stock on 30th June 1967 was Rs. 35,000. Write off Rs. 3,000 Bad Debts and maintain a Reserve of 5% on Debtors. Depreciate Plant and Machinery 10%. Allow interest on Capital at 5% per annum. Wages and Salaries are unpaid to the extent of Rs. 1,500 and Rs. 450. Rent at Rs. 200 per month for the last two months is unpaid.

	Rs.		Rs.
Stock on 1st July 1966	96,000	Returns Inwards	1,000
Wages .	28,000	Sundry Debtors	35,000
Salaries	4,000	Office Expenses	5,000
Railway Charges, etc. on Purchases	5,000	Income-tax	500
Purchases	1,20,000	Drawings	6,500
Interest on Overdraft	200	J. Jehangir's Capital	[illegible]0,000
Bills Receivable	6,000	Bills Payable	5,000
Rent . .	2,000	The Consolidated Bank Loan (Cr.)	4,000
Plant & Machinery	20,000	Sales	2,50,000
Travelling Expenses .	5,000	Reserve for Bad Debts ..	3,000
Repairs to Plant ...	1,600	Discount on Purchases .	4,000
Cash in hand	200	Sundry Creditors	23,300
Cash at Bank . .	1,800	Returns Outwards .	1,500
Building	5,000		

A The following are the Adjusting Entries to be passed —

JOURNAL ENTRIES

		L.F	Rs	Rs
Bad Debts Account To Sundry Debtors (Being the entry to write off the balances due from the Sundry Debtors being irrecoverable)	Dr		3 000	3 000
Reserve for Doubtful Debts Account To Profit and Loss Account (Being the entry to write back the amount provided for in excess on the former account in previous years)	Dr		400	400
Depreciation Account To Plant and Machinery Account (Being the provision for depreciation on Plant and Machinery at 10%)	Dr		2 000	2 000
Interest Account To Capital Account (Being Interest at 5% allowed on Capital)	Dr		2 500	2 500
Wages Account Salaries Account Rent Account To Outstanding Creditors (Being the provision for expenses outstanding on the former accounts)	Dr „		1 500 450 400	 2 350
Purchases Account To Purchases Returns „ Trade Discount (Being the transfer of Purchases Returns and Trade Discount to the former account)	Dr		5 500	 1 500 4 000
Sales Account To Sales Returns Account (Being the transfer of Sales Returns to Sales Account)	Dr		1 000	1 000

The following are the Closing Entries —

JOURNAL ENTRIES

		L.F	Rs	Rs
Trading Account To Stock Account „ Purchases Account „ Wages Account Railway Charges Account (Being the transfer of the latter account to the former)	Dr		2 45 000	 96 000 1 14 500 29 500 5 000
Sales Account To Trading Account (Being the transfer of Sales to Trading Account)	Dr		2 49 000	2 49 000
Stock Account To Trading Account (Being the entry to bring closing stock into account.)	Dr		35 000	35 000

JOURNAL ENTRIES—*contd.*

	L.F.	Rs.	Rs.
Profit and Loss Account .. .. .. Dr.		23,150	
To Salaries Account			4,450
„ Rent Account			2,400
„ Office Expenses Account			5,000
„ Travelling Expenses Account			5,000
„ Repairs to Plant Account			1,600
„ Interest Account			2,700
„ Depreciation Account			2,000
(Being the transfer of various expenses to Profit and Loss Account.)			
Profit and Loss Account .. .. .. Dr.		16,250	
To Capital Account			16,250
(Being the transfer of net profit to Capital Account.)			
Capital Account .. .. .. Dr.		7,000	
To Drawings Account			6,500
„ Income-tax Account			500
(Being the transfer of Drawings and Income-tax to Capital.)			

J. JEHANGIR

TRADING AND PROFIT AND LOSS ACCOUNT

For the year ended 30th June 1966

	Rs.	Rs.	Rs.		Rs.	Rs.
To Stock, 1-7-1965			96,000	By Sales ..	2,50,000	
„ Purchases ..		1,20,000		*Less* Returns ..	1,000	
	Rs.					2,49,000
Less Returns	1,500			„ Stock on 30th June 1966 ..		35,000
„ Discount	4,000					
		5,500				
			1,14,500			
„ Wages ..			29,500			
„ Railway Charges ..			5,000			
„ Gross Profit c/d. ..			39,000			
		Rs.	2,84,000		Rs.	2,84,000
			Rs.		Rs.	Rs.
To Salaries ..			4,450	By Gross Profit b/d.		39,000
„ Rent ..			2,400	„ Reserve for Doubtful Debts:—		
„ Office Expenses ..			5,000	Old Reserve ..	5,000	
„ Travelling Expenses ..			5,000	Rs.		
„ Repairs to Plant ..			1,600	*Less* Bad Debts .. 3,000		
„ Interest on Overdraft ..			200	„ New Reserve on 30-6-66 @ 5% on Rs. 32,000 1,600		
„ „ on Capital ..			2,500		4,600	
„ Depreciation:— Plant & Machinery @ 10% ..			2,000			400
„ Net Profit transferred to Capital Account ..			16,250			
		Rs.	39,400		Rs.	39,400

Stock on hand on 30th September 1966 was Rs. 1,28,960.
Write off half of B. Madan's dishonoured bill.
Create a Reserve of 5% on Sundry Debtors.
Charge 5% Interest on Capital.
Manufacturing Wages incldue Rs. 1,200 for erection of new machinery purchased last year.
Depreciate Plant and Machinery by 5% and Fixtures and Fittings by 10% per annum.
Commission earned but not received amounts to Rs. 600
Interest on Loan for the last two months is not paid.

A.

A. ARTHUR

TRADING AND PROFIT AND LOSS ACCOUNT

For the year ended 30th September 1966

		Rs.		Rs.	Rs.
To Stock, 1st October 1965		89,680	By Sales ..	3,56,430	
„ Purchases		2,56,590	*Less* Returns ..	2,780	
„ Manufacturing Wages		39,770			3,53,650
„ Gross Profit c/d. ..		96,570	„ Stock on 30th Sept. 1966		1,28,960
Rs.		4,82,610	Rs.		4,82,610
		Rs.			Rs.
To Salaries and Wages		11,000	By Gross Profit b/d. ..		96,570
„ Rent and Taxes .. .		5,620	„ Commission		6,240
„ Interest and Discount ..		6,070			
„ Travelling Expenses .. .		1,880			
„ Repairs and Renewals		3,370			
„ Insurance		250			
„ Bad Debts		4,120			
„ Reserve for Doubtful Debts at 5 per cent		3,075			
„ Interest on Capital at 5 per cent ..		5,970			
„ Depreciation Account :—	Rs.				
Plant and Machinery at 5 per cent ..	1,440				
Fixtures and Fittings at 10 per cent ..	897				
		2,337			
„ Net Profit transferred to Capital Account		59,118			
Rs.		1,02,810	Rs.		1,02,810

BALANCE SHEET

As at 30th September 1966

Liabilities		Rs	*Assets*			Rs
	Rs					
Sundry Creditors — Rs			Cash in hand			530
On Open Accounts	59 630		„ at Bank			18,970
For Loan 20 000			Sundry Debtors —	Rs	Rs	
Add Interest 200			For Bills Receivable		9 500	
	20,200		„ Commission		600	
		79 830	On Open Accounts	61 500		
Capital Account —	Rs		*Less* Reserve for			
Balance on 1st Oct. 1965	1 19 400		Doubtful Debts			
Add Interest at 5 per cent	5,970		at 5 per cent	3 075		
Add Profit during the					58 425	
year	59 118					68 525
			Stock			1 28 960
	1 84 488		Fixtures and Fittings		8 970	
Less Drawings during			*Less* Depreciation at			
the year	10 550		10 per cent		897	
		1 73 938				8 073
			Plant and Machinery		28 800	
			Add Additions during the			
			year		1 200	
					30 000	
			Less Depreciation at 5			
			per cent		1,440	
						28,560
			Prepaid Expenses			150
Rs		2 53 768			Rs	2,53 768

Q 118 *From the following balances of M Maneckla!, prepare Trading and Profit & Loss Account and Balance Sheet as at 31st December 1966 —*

	Rs		Rs
Capital Account	20 500	Drawings	2 500
Creditors—Trade	15 000	Purchases	85 500
—Expenses	3 400	Carriage Inwards	750
Rent Received	300	Wages—Manufacturing	11 500
Purchases Returns	2 000	Power	4 500
Sales	1 44 800	Rent and Insurance	9 950
Bad Debts Reserve—		Salaries and General Wages	17 200
1st January 1966	300	Discount Received	900
Advertising Development	4 000	General Charges	4 300
Goodwill	2 500	Sales Returns	300
Plant and Machinery	10 000	Travellers Commission	1 445
Travellers Samples	1 350	Salaries	4 550
Stock on 1st Jan 1966	16 000	Discounts allowed	2,500
Debtors	7 300		
Cash at Bank	1 000		
Cash in hand	55		

The closing stock was Rs 11 500 but there has been a loss by fire on December 20th 1966 to the extent of Rs 10 000 not covered by Insurance Depreciate Plant and Machinery by 10% and Travellers' Samples by 33-1/3% Increase the Bad Debts Reserve to Rs 1 000 Write 50% off Advertising

Development Account. Annual premium on Insurance expiring 1st March 1967 was Rs. 600.

A.

M. MANECKLAL
TRADING AND PROFIT AND LOSS ACCOUNT
For the year ended 31st December 1966

	Rs.	Rs.		Rs.	Rs.
To Stock, 1-1-1966 ..	..	16,000	By Sales	..1,44,800	
„ Purchases ..	85,500		*Less* Returns ..	300	
Less Returns ..	2,000				1,44,500
		83,500	„ Stock, 31st Dec. 1966 ..		11,500
„ Manufacturing Wages ..		11,500	„ *Loss of Stock by Fire* ..		10,000
„ Carriage Inwards ..	..	750			
„ Power ..	..	4,500			
„ Gross Profit c/d. ..		49,750			
	Rs.	1,66,000		Rs.	1,66,000
		Rs.			Rs.
To Salaries and General Wages		17,200	By Gross Profit b/d. ..		49,750
„ Rent and Insurance ..		9,550	„ Net Loss transferred to Capital Account		3,045
„ General Charges ..		4,300			
„ Travellers' Salaries ..	..	4,550			
„ „ Commission		1,445			
„ Advertising Development written off ..		2,000			
„ Discount ..	..	1,600			
„ Reserve for Bad and Doubtful Debts ..	..	700			
„ Depreciation :—	Rs.				
Plant and Machinery at 10%	1,000				
Travellers' Samples at 33⅓%	450				
		1,450			
„ *Loss of Stock by Fire* ..		10,000			
	Rs.	52,795		Rs.	52,795

BALANCE SHEET
As at 31st December 1966

Liabilities	Rs.	Rs.	Rs.	*Assets*	Rs.	Rs.
Sundry Creditors :—				Cash in Hand ..		55
On Open Account ..		15,000		„ at Bank		1,000
For Expenses ..		3,400		Debtors ..	7,300	
			18,400	*Less* Reserve for Doubtful Debts ..	1,000	
Capital Account :—	Rs.					6,300
Balance on 1st Jan. ..		20,500		Stock ..		11,500
Less Drawings	2,500			Travellers' Samples ..	1,350	
„ Loss during the year	3,045			*Less* Depreciation at 33⅓%	450	
		5,545				900
			14,955		Rs.	
				Plant and Machinery ..	10,000	
				Less Depreciation at 10%	1,000	
						9,000
				Advertising Development ..	4,000	
				Less ½ written off ..	2,000	
						2,000
				Goodwill ..		2,500
				Prepaid Expenses ..		100
		Rs.	33,355		Rs.	33,355

Note—The Loss by Fire must be credited to Trading Account and debited to Profit and Loss Account so as not to disturb the ratio of Gross Profit

Q 119 *On 1st January 1966, the Bad Debts Reserve was Rs 2,400 The Bad Debts during the year amounted to Rs 1,700 The Debtors at 31st December 1966 are Rs 58,000, and a new Reserve of 5% is required Make the necessary Journal Entries, show the Ledger Accounts and the Profit and Loss Account and Balance Sheet*

A

JOURNAL ENTRIES

1966			L.F	Rs	Rs
Dec 31	Reserve for Doubtful Debts Account To Bad Debts (Being the transfer of Bad Debts during the year to the former account.)	Dr		1 700	1 700
	Profit and Loss Account To Reserve for Doubtful Debts (Being the additional provision made to bring up the Reserve to 5% on Rs 58 000)	Dr		2,200	2 200

BAD DEBTS ACCOUNT

1966		Rs	1966		Rs
Dec 31	To Sundry Debtors	1 700	Dec 31	By Reserve for Doubtful Debts—Transfer	1 700
	Rs	1 700		Rs	1 700

RESERVE FOR DOUBTFUL DEBTS ACCOUNT

1966		Rs	1966		Rs
Dec 31	To Bad Debts—Transfer	1 700	Jan 1	By Balance b/fd	2 400
	„ Balance c/d	2,900	Dec 31	„ Profit & Loss Account	2 200
	Rs	4 600		Rs	4 600

PROFIT AND LOSS ACCOUNT (Debit side)

	Rs	Rs
To Bad Debts	1 700	
Reserve for Doubtful Debts	2,900	
	4 600	
Less Old Reserve	2 400	
		2,200

BALANCE SHEET (Assets side)

	Rs	Rs
Sundry Debtors	58 000	
Less 5% Reserve for Doubtful Debts	2 900	
		55 100

Q. 120. *On 31st December 1964, the total amount owing by the Debtors was Rs. 40,445, of which Rs. 445, represented Bad Debts, which had remained to be written off. It was decided to write these off and create a Reserve of 5 per cent on the balance to cover Doubtful Debts. During the year 1965, the Bad Debts written off amounted to Rs. 1,200. On 31st December 1965, the Debtors amounted to Rs. 45,000 and the Reserve for Doubtful Debts was to be maintained at 5 per cent on the Debtors. In the year 1966, Bad Debts amounting to Rs. 4,000 were written off and on 31st December 1966, the Debtors were Rs. 30,000, the Reserve for Doubtful Debts being again maintained at 5 per cent. On 31st December 1967, the Debtors amounted to only Rs. 10,000 and the actual Bad Debts written off during the year Rs. 300. The Reserve for Doubtful Debts was to be maintained at 2½% on the total amount of Debtors.*

Pass Journal Entries each year in respect of the Bad Debts and the Reserve for Doubtful Debts Account. Show also how both these items will appear in the Profit and Loss Account and how the Reserve for Doubtful Debts will be shown in the Balance Sheet of each of these years. Prepare Reserve for Doubtful Debts Account for each year.

A.

JOURNAL ENTRIES

		L.F.	Rs.	Rs.
1964 Dec. 31	Bad Debts Account .. .. Dr. To Customers' Accounts (Being the amount of Bad Debts written off.)		445	445
" "	Profit and Loss Account .. .. .. Dr. To Bad Debts (Being the entry for writing off Bad Debts Account.)		445	445
" "	Profit and Loss Account .. .. .. Dr. To Reserve for Doubtful Debts (Being the provision made for Doubtful Debts at 5% on Rs. 40,000.)		2,000	2,000
1965 Dec. 31	Reserve for Doubtful Debts .. .. .. Dr. To Bad Debts (Being the entry for transferring Bad Debts to former Account.)		1,200	1,200
" "	Profit and Loss Account .. .. .. Dr. To Reserve for Doubtful Debts (Being the additional provision made to bring up the Reserve for Doubtful Debts to 5% on Rs. 45,000.)		1,450	1,450

JOURNAL ENTRIES—*contd*

			L F	Rs	Rs
1966 Dec 31	Reserve for Doubtful Debts To Bad Debts (Being the entry for transferring Bad Debts to former Account)	Dr		4 000	4 000
" "	Profit and Loss Account To Reserve for Doubtful Debts (Being the new provision made to bring up the Reserve for Doubtful Debts to 5% on Rs 30 000)	Dr		3,250	3,250
1967 Dec. 31	Reserve for Doubtful Debts To Bad Debts (Being the entry for transferring Bad Debts to former Account)	Dr		300	300
" "	Reserve for Doubtful Debts To Profit and Loss Account (Being the excess profit transferred to Profit and Loss Account after leaving a Reserve for Doubtful Debts at 2½% on Rs. 10,000)	Dr		950	950

RESERVE FOR DOUBTFUL DEBTS ACCOUNT

1964 Dec 31	To Balance c/d	Rs 2 000	1964 Dec 31	By P & L Account	Rs 2 000
	Rs.	2 000		Rs	2 000
1965 Dec 31	To Bad Debts Account—Transfer	Rs 1,200	1965 Jan 1	By Balance b/d	Rs 2 000
	" Balance c/d	2,250	Dec 31	" Profit and Loss Account	1 450
	Rs	3 450		Rs	3 450
1966 Dec 31	To Bad Debts Account—Transfer	Rs 4 000	1966 Jan. 1	By Balance b/d	Rs 2,250
	" Balance c/d	1,500	Dec. 31	" Profit and Loss Account	3,250
	Rs	5,500		Rs	5,500
1967 Dec. 31	To Bad Debts Account—Transfer	Rs 300	1967 Jan. 1	By Balance b/d	Rs 1,500
	" Profit & Loss Account	950			
	" Balance c/d.	250			
	Rs	1,500		Rs	1,500
			1968 Jan. 1	By Balance b/d	250

PROFIT AND LOSS ACCOUNT, 1964 (Debit side)

		Rs.
To Bad Debts	... ...	445
,, Reserve for Doubtful Debts	... ...	2,000

PROFIT AND LOSS ACCOUNT, 1965 (Debit side)

		Rs	Rs.
To Bad Debts	... .	1,200	
,, Reserve for Doubtful Debts	... ...	2,250	
		3,450	
Less Old Reserve	. ...	2,000	
			1,450

PROFIT AND LOSS ACCOUNT, 1966 (Debit side)

		Rs.	Rs.
To Bad Debts	. .. ..	4,000	
,, Reserve for Doubtful Debts	... ..	1,500	
		5,500	
Less Old Reserve	... .	2,250	
			3,250

PROFIT AND LOSS ACCOUNT, 1967 (Credit side)

		Rs.	Rs.	Rs.
By Balance of Old Reserve for Doubtful Debts	... ..		1,500	
Less Bad Debts	.. ...	300		
,, New Reserve	.. ...	250		
			550	
				950

BALANCE SHEET

As at 31st December 1964

(Assets side)

		Rs.	Rs.
Sundry Debtors	. ... ..	40,000	
Less 5% Reserve for Doubtful Debts	.	2,000	
			38,000

BALANCE SHEET

As at 31st December 1965

(Assets side)

		Rs.	Rs.
Sundry Debtors	.. ..	45,000	
Less 5% Reserve for Doubtful Debts	. ...	2,250	
			42,750

BALANCE SHEET

As at 31st December 1966

(Assets side)

		Rs.	Rs.
Sundry Debtors	... .	30,000	
Less 5% Reserve for Doubtful Debts	...	1,500	
			28,500

BALANCE SHEET

As at 31st December 1967

(Assets side)

		Rs.	Rs.
Sundry Debtors	... ...	10,000	
Less 2½% Reserve for Doubtful Debts	... ...	250	
			9,750

Q 121 *The Sundry Debtors at 31st December 1966 were Rs 40,000 and you are required to make a 5 per cent Reserve for Doubtful Debts and also a 5 per cent Reserve for Discounts The actual Bad Debts during the year 1967 amounted to Rs 1,600 and the discount allowed were Rs 1 700 The Debtors at the close of the year 1967 were Rs 50 000 and Reserve for Doubtful Debts and Reserve for Discounts are required to be maintained at 5 per cent Give Journal entries and show how the transactions would be shown in the Ledger Accounts, the Profit and Loss Account and the Balance Sheet*

A. JOURNAL ENTRIES

			L.F	Rs	Rs
1966 Dec 31	Profit and Loss Account To Reserve for Doubtful Debts (Being the provision made at 5% on Rs 40 000 for *Doubtful Debts.)*	Dr		2 000	2 000
" "	Profit and Loss Account To Reserve for Discount on Debtors (Being the provision made for Discounts at 5% on Rs 38,000 viz the estimated realisable amount of Sundry Debtors)	Dr		1,900	1 900
1967 Dec 31	Reserve for Doubtful Debts Account To Bad Debts (Being the entry to close Bad Debts Account by transfer to the former Account)	Dr		1 600	1 600
" "	Profit and Loss Account To Reserve for Doubtful Debts (Being the additional provision made to bring it up to 5% on Rs 50 000)	Dr		2 100	2 100
" "	Reserve for Discount on Debtors Account To Discount Account (Being the transfer of Discounts during the year to former Account.)	Dr		1 700	1 700
" "	Profit and Loss Account To Reserve for Discount on Debtors (Being the provision for Discounts at 5 per cent on Rs 47,500 the likely realisable value of Sundry D btors.)	Dr		2 175	2 175

BAD DEBTS ACCOUNT

		Rs			Rs
1967 Dec 31	To Sundry Debtors	1 600	1967 Dec. 31	By Reserve for Doubtful Debts—Transfer	1 600
	Rs.	1 600		Rs	1 600

RESERVE FOR DOUBTFUL DEBTS ACCOUNT

Date	Particulars	Rs.	Date	Particulars	Rs.
1966 Dec. 31	To Balance c/d. ..	2,000	1966 Dec. 31	By Reserve for Doubtful Debts—Transfer ..	2,000
	Rs.	2,000		Rs.	2,000
1967 Dec. 31	To Bad Debts Account—Transfer ..	1,600	1967 Jan. 1	By Balance b/d. ..	2,000
	„ Balance c/d. ..	2,500	Dec. 31	„ Profit and Loss Account	2,100
	Rs.	4,100		Rs.	4,100
			1968 Jan. 1	By Balance b/d. ..	2,500

DISCOUNT ACCOUNT

Date	Particulars	Rs.	Date	Particulars	Rs.
1967 Dec. 31	To Sundry Debtors ..	1,700	1967 Dec. 31	By Reserve for Discounts on Debtors—Transfer ..	1,700
	Rs.	1,700		Rs.	1,700

RESERVE FOR DISCOUNTS ON DEBTORS ACCOUNT

Date	Particulars	Rs.	Date	Particulars	Rs.
1966 Dec. 31	To Balance c/d. ..	1,900	1966 Dec. 31	By Profit and Loss Account..	1,900
	Rs.	1,900		Rs.	1,900
1967 Dec. 31	To Discount Account—Transfer ..	1,700	1967 Jan. 1	By Balance b/d. ..	1,900
	„ Balance c/d. ..	2,375	Dec. 31	„ Profit and Loss Account..	2,175
	Rs.	4,075		Rs.	4,075
			1968 Jan. 1	By Balance b/d. ..	2,375

PROFIT AND LOSS ACCOUNT (Debit side), 1966

	Rs.
To Reserve for Doubtful Debts	2,000
„ Discounts	1,900

PROFIT AND LOSS ACCOUNT (Debit side), 1967

	Rs.	Rs.
To Bad Debts	1,600	
„ Reserve for Doubtful Debts	2,500	
	4,100	
Less Old Reserve	2,000	2,100
To Discounts	1,700	
„ Reserve for Discounts on Debtors	2,375	
	4,075	
Less Old Reserve	1,900	2,175

BALANCE SHEET
As at 31st December 1966
(Assets side)

	Rs	Rs	Rs
Sundry Debtors		40 000	
Less 5% Reserve for Doubtful Debts	2 000		
„ 5% Reserve for Discounts on Debtors	1 900		
		3 900	
			36,100

BALANCE SHEET
As at 31st December 1967
(Assets side)

	Rs	Rs	Rs
Sundry Debtors		50,000	
Less 5% Reserve for Doubtful Debts	2 500		
„ 5% Reserve for Discount on Debtors	2 370		
		4 870	
			45,130

Q. 122. *On 1st January 1966, the Reserve for Discounts on Creditors was Rs 1,200 The Discounts earned during the year amounted to Rs 1,040 The Creditors at 31st December 1966 were Rs 50,000 and a new Reserve of $2\frac{1}{2}$ per cent is required Show the Journal, Ledger, Profit and Loss and Balance Sheet entries relating to Discount*

A. JOURNAL ENTRIES

			L F	Rs	Rs
1966 Dec 31	Discount Account To Reserve for Discount on Creditors (Being the transfer of Discounts earned during the year to latter Account)	Dr		1 040	1 040
	Reserve for Discount on Creditors To Profit & Loss Account (Being the additional provision made to bring up the Reserve to $2\frac{1}{2}$ per cent on Rs 50 000)	Dr		1,090	1,090

DISCOUNT ACCOUNT

		Rs			Rs
1966 Dec 31	To Reserve for Discount on Creditors Account —Transfer	1,040	1966 Dec 31	By Sundry Creditors	1,040
	Rs	1,040		Rs	1 040

RESERVE FOR DISCOUNT ON CREDITORS ACCOUNT

		Rs			Rs
1966 Jan 1	To Balance b/d	1 200	1966 Dec 31	By Discount Account—Transfer	1,040
Dec 31	„ Profit and Loss Account	1 090		„ Balance b/d	1,250
	Rs	2,290		Rs	2,290
1967 Jan 1	To Balance b/d	1,250			

PROFIT AND LOSS ACCOUNT

As at 31st December 1966

(Credit side)

	Rs.	Rs.
By Discounts	1,040	
„ Reserve for Discount on Creditors ...	1,250	
	2,290	
Less Old Reserve	1,200	
		1,090

BALANCE SHEET

As at 31st December 1966

(Liabilities side)

	Rs.	Rs.
Sundry Creditors ...	50,000	
Less 2½% Reserve for Discount on Creditors ...	1,250	
		48,750

CHAPTER III

CAPITAL AND REVENUE EXPENDITURE, RECEIPTS AND PAYMENTS STATEMENT AND INCOME AND EXPENDITURE ACCOUNT

Q 123 *Explain fully why it is necessary to distinguish between Capital and Revenue Expenditure*

A The distinction between Capital and Revenue Expenditure most vitally affects the fundamentals of accounting and it is highly essential, therefore that the proper adjustment of these items must receive close and careful attention at the time of preparation of Final Accounts In view of the fact that in so constructing the Final Accounts all revenue items would have to be included in the Revenue Account i e, the Profit and Loss Account and all items of Capital Expenditure will form part of the Balance Sheet, it follows that this distinction would need to be most rigidly observed inasmuch as any incorrect adjustment or allocation in this behalf would falsify the final results as disclosed by both the Profit and Loss Account and the Balance Sheet

Q 124 *Define Capital and Revenue Expenditure*

A All expenditure which results in the acquisition of permanent assets which are intended to be continually used in the business for the purpose of earning revenue is Capital Expenditure Further any amount expended which tends to extend or improve existing assets so as to enhance their revenue earning capacity by increasing production or reducing cost of production may rightly be treated as Capital Expenditure Thus the cost of Land Building Plant Tools, Fixtures and similar assets acquired by any concern by way of permanent equipment so that with the help of these the business may be carried on would be treated as Capital Expenditure

Revenue Expenditure.—All establishment and other expenses incurred *in the conduct and administration of the business come under the heading* of Revenue Expenditure Further, all expenses incurred by way of repairs replacements and renewals of existing assets which do not in any way add to their earning capacity but simply serve to maintain the original equipment in an efficient working order are properly chargeable to revenue Thus office *salaries rent taxes insurance advertising and other expenses incidental to* the carrying on of a business, as also amounts expended on repairs to assets forming part of permanent equipment would be treated as items of Revenue Expenditure

Note —It is important to note that whereas all items of Capital Expenditure will be included in the Balance Sheet all Revenue items will find their place in the Revenue Account, i e the Profit and Loss Account

Q 125 *Give instances of items which although normally considered as revenue expenditure are allowed to be capitalised under certain circumstances*

A. The following are exceptions to the above general rules:—

Legal Costs and Architect's Fees.—These are, as a rule, revenue charges; but Legal Charges and Stamp Duty paid for conveyancing on acquisition of a property and Architect's Fees paid for supervising construction of a property can be capitalised, as they form an additional cost of the asset acquired.

Brokerage and Stamp Duty.—Normally, these are revenue items: but brokerage paid on acquisition of a property or on purchase of shares, stocks or other securities, as also the stamp duty involved thereon can be treated as an additional cost of the purchase and capitalised.

Parliamentary Expenses.—Parliamentary Expenses incurred in promoting Bills for granting licences to Railways, Tramway Companies, Gas Works, Electric Lighting Companies and such other concerns, are capitalised under special Acts.

Productive Wages.—This is a revenue charge; but in a manufacturing business where the firm's own men are employed in making extension to the factory building, or in erecting plant or manufacturing tools for own requirements, the wages paid for such purposes would be capitalised.

Repairs.—Repairs and renewals are normally treated as items of revenue expenditure; but if an old property has just been acquired in a dilapidated state, and an amount is expended to put it into a tenantable condition, the same can rightly be added to the cost of the asset. Similarly, if an old machine is purchased and a sum is spent by way of repairs and replacements to put it in running order and thus render it revenue-earning, the same can fairly be treated as an additional cost of the machine.

Advertising.—Ordinarily, amounts expended on advertising own factory products or other goods dealt in with a view to enhance the sales, are chargeable to revenue. But where a newspaper concern expends abnormally heavy amounts on advertising in the beginning of its career, or where a manufacturing concern advertises largely its patented products at the initial stages of the business, this may have the effect of creating a future goodwill and may be capitalised.

Interest.—Although, ordinarily, a revenue charge, interest paid by public utility concerns on subscribed capital, during construction of works, is allowed to be capitalised by statute, under certain terms and conditions.

Freight and Carriage.—This is revenue charge; but freight or carriage paid on newly-acquired plant or similar fixed asset will form additional cost of the asset in question and will be capitalised.

Development Expenses.—In concerns like Collieries, Mines, Tea, Rubber and other Plantations, all expenses incurred during the period of development and upto the time they begin to earn are charged to Capital.

Preliminary or Formation Expenses —These are initial expenses incurred in connection with the formation of a public company and the obtaining of the share capital These expenses, although revenue in their nature, are allowed to be capitalised and can be shown as an asset in the Balance Sheet, under the Companies Act There is nothing, however, to prevent their being written off against Profits over a period of years and it would be sound and prudent to do so, provided there are sufficient profits to write these off

Underwriting Commission or Brokerage on Shares —These items are equally of a revenue nature as above, but are allowed to be capitalised and can be shown in a Company Balance Sheet as an asset, under the Companies Act

Cost of Issue of Debentures or Discount on Issue of Debentures —This item represents expenses or loss arising at the time of issue of Debentures by a Public Company, and although revenue by nature it is allowed to be temporarily capitalised and apportioned equally over the number of years for which the Debentures are to run

Additions to Leasehold —Addition to a Leasehold Building is a capital expenditure and can be debited to Leasehold Account But the cost of the original Lease as also the cost of additions thereto must be charged off to revenue equitably over the period covered by the Leasehold

Expenses Relating to Patents —All expenses relating to experimenting and subsequent acquisition of Patents including the Patent Agent's Fees are allowed to be capitalised, but fee paid for Renewal of Patents is a revenue charge

Q 126 *What do you understand by the term "Deferred Revenue Expenditure"? Give a few instances of such expenditure*

A. **Deferred Revenue Expenditure** —Where heavy expenditure of a revenue nature is incurred, the benefit of which is likely to extend beyond the year in which it takes place, it is customary and legitimate to allow such an expenditure to be temporarily capitalised and to be spread equally over the number of years for which it is anticipated the benefit would be enjoyed by the business It need hardly be stated, however, that as to within what number of years the whole amount should be written off will depend on the circumstances attaching to each particular case Items such as **Preliminary Expenses, Brokerage on Shares** and **Cost of Issue of Debentures** or **Discount on Issue of Debentures** as explained above, may well be classed under this head Further instances of Deferred Revenue Expenditure items are

(a) **Cost of Removal of Business** to a more convenient locality

(b) **Cost of Removal of Works** and the incidental expenses incurred in connection with the **dismantling, removing** and **re-erection** of plant and machinery

(c) Exceptional Repairs of a non-recurring nature by way of overhauling of the entire plant or a section thereof.

(d) Advertising payment made under a contract extending over a term of years or an abnormally heavy amount expended on advertisement in any one year in order to popularise a new product.

In all such cases, inasmuch as the benefit to be derived from the amount expended would last for a number of years to come, it is deemed sound and equitable that each of these years concerned be burdened with a proportionate share of such expense, and not the whole amount be charged off to the revenue account of the very year in which it had been so expended.

Q. 127. *How should "Structural Alterations" to an existing property or plant be dealt with?*

A. Where structural alterations are made on a property to satisfy local bye-laws, but which do not in any way add to the revenue-earning capacity of the asset in question or where alterations have to be made on a roof to prevent leakage of rain water, the amount spent should be charged to revenue. Thus, if additional emergency exits have to be constructed in a theatre under the rules of local authorities, the cost should be charged to revenue. But where alterations are done to any existing plant whereby its efficiency or capacity is increased, such cost may fairly be capitalised. Similarly, if a theatre or cinema-hall is re-furnished or structural alterations are done thereto whereby its attractiveness and comfort are considerably added to, so as to result in additional revenue, the amount expended will be treated as Capital Expenditure; but if the expenditure is by way of re-painting and putting the property in thorough repairs, the same must be charged off to revenue, although an abnormal amount having been spent in this manner may be treated as a Deferred Revenue Expenditure item and spread over a reasonable number of years.

Q. 128. *Under what circumstances would an amount expended on an existing asset be apportioned between capital and revenue?*

A. It happens sometimes that an amount is expended on an existing asset, and whereas the whole of it cannot on the one hand be treated as capital expenditure, it cannot equally be dealt with in its entirety as a revenue charge. Under such a circumstance, it will have to be most carefully apportioned between capital and revenue, and for the purpose of such a dissection, the basis of apportionment would be as follows. To the extent to which the expenditure results in enhancing the revenue-earning capacity of the existing asset, it can safely be treated as capital expenditure and the balance may be charged off to revenue. In so dissecting the expenditure, it has always been regarded as sound and desirable to err on the safe side by charging a proportionately larger sum to revenue than would be justified from the results, in order that the asset account concerned may

not be shown in the books at anything more than its real value A good illustration on this point may be quoted Some extensive alterations were done recently to a Cinema Theatre Building Apart from important structural alterations, the entire property was put in thorough repairs, and the interior of the theatre including the sitting accommodation was absolutely re-furnished and made more attractive and comfortable This resulted immediately in a substantial increase in revenue A careful analysis of the total sum expended elicited the fact that only 16% of the total expenditure related to repairs and re painting and that 84% represented improvements to building and cost of re-furnishing It was then decided to treat 20% of the entire expenditure as a revenue charge and capitalise 80% The book value of the old assets abandoned had naturally to be written off, but as this sum as also the 20% to be charged to revenue amounted to an abnormally heavy burden on the Profit and Loss Account, the same had to be distributed over a period of three years

Q. 129. *What method of adjustment between Capital and Revenue is usually followed when Old Works have to be pulled down and are replaced by New Works of greater earning capacity or where the existing plant has to be discarded to make room for one more costly and efficient?*

A. There are occasions when old works have to be pulled down and re-instated by new works of greater earning capacity, or the existing plant has to be discarded due to new inventions and replaced by one more costly and efficient Such a circumstance would call for a careful adjustment between capital and revenue, and the important point to be decided is, 'should the loss represented by the book values of the assets discarded be considered as part of the cost of new equipment and capitalised"? In such a case, the one method usually followed is to capitalise the entire present cost of new equipment, and to charge off to revenue the book value of the old asset **plus** the cost of dismantling, **less** the proceeds from the sale of old materials and the value of old materials utilised in new construction A more conservative method would be to charge off to revenue the **present cost of replacement** and to capitalise only the **actual betterment** Assume that a tramway company converts its horse traction into an electric traction, and an enormous amount of loss is sustained due to the horses and the old rolling stock having had to be disposed off at any price realisable Would it be sound and proper to capitalise such a loss by treating it as *forming part of the cost of new equipment*? Opinion on this matter unfortunately is divided, but it may safely be said that although the legality of such a procedure may not be questioned, it can never be said to be a sound policy to follow from the viewpoint of finance In fact, it is never sound to permanently capitalise an amount which is not represented by any tangible asset But the amount of loss arising from the old assets having had to be discarded being abnormally heavy need not necessarily

be charged off to revenue in one year, but may be distributed over a reasonable period of years. Where such a replacement does not result in any increase in the revenue-earning capacity of the business, the whole of the cost of renewal may be treated as a revenue charge and may be spread equitably over the number of years for which it is estimated the benefit of such replacement will be felt.

Q. 130. *Give an exhaustive list of items chargeable to Revenue and those chargeable to Capital.*

A. **Items chargeable to Revenue:—**

1. All expenses incurred in the ordinary conduct and administration of the business, such as Rent, Salaries, Wages, Insurance, Advertising, etc.
2. Expenses incurred by way of repairs, renewals and replacements for the purpose of maintaining the existing permanent assets of the business, such as Works Building, Plant, Machinery, Tools, Fixtures, etc. in a state of original working efficiency.
3. Cost of goods bought for re-sale.
4. Cost of Raw Materials and Stores acquired for consumption in course of manufacturing.
5. Wages paid for manufacture of products for sale.
6. All other amounts expended in the manufacturing and distribution of the products handled.
7. Loss arising from wear and tear and obsolescence of assets utilised in business.
8. Annual amount to be written off the Lease.
9. Interest on Loans borrowed for business.
10. Loss arising from sale of Fixed Assets.
11. Annual fees paid for renewal of patents.
12. Maintenance of Office Car or Motor Van including replacement of Tyres, Tubes, Wheels, etc.
13. Maintenance of Electric Lights and Fans.
14. Book values of assets discarded or totally damaged or destroyed by fire or other reasons.

Items chargeable to Capital:—

1. Cost of Goodwill.
2. Cost of Freehold Land and Buildings, and the legal charges and stamp duty in connection with conveyancing.
3. Cost of Lease acquired.
4. Cost of Plant, Machinery, Tools, Fixtures, acquired for equipment.

5 Cost of Trade Marks, Patents, Copyrights Patterns and Designs
6 Cost of Office Car, Motor Van or Lorry
7 Cost of installation of Lights and Fans
8 Cost of any other asset acquired by way of equipment
9 Expenses on erection of Plant and Machinery
10 Actual additions and extensions to existing assets
11 Structural improvements or alterations to existing assets whereby their revenue-earning capacity is increased
12 Development Expenses in case of Mines and Plantations
13 Administration Expenses in industrial enterprises incurred during period of construction and equipment
14 Cost of experimenting when the same results ultimately in acquisition of a patent

Q 131 *The Swadeshi Industries removed their Works to a more suitable premises —*

(a) *A sum of Rs* 4,750 *was expended on dismantling, removing and re-installing Plant, Machinery and Fixtures*

(b) *The removal of Stock from the old works to the new one cost Rs* 500

(c) *Plant and Machinery which stood in the books at Rs* 75 000 *included a machine at a book value of Rs* 1,700 *This being obsolete was sold off at Rs* 450 *and was replaced by a new machine which cost Rs* 2,400

(d) *The freight and cartage on the new machine amounted to Rs* 150 *and the erection charges cost Rs* 275

(e) *The Fixtures and Furniture appeared in the books at Rs* 7,500 *Of these some portion of the book value of Rs* 1,500 *was discarded and sold off at Rs* 600 *and new Furniture of the value of Rs* 1,200 *was acquired*

(f) *A sum of Rs* 1,100 *was spent on painting the new factory*

State which items of expenditure would be charged to Capital and which to Revenue

A. (a) Rs 4,750 expended on removing and re installing Plant and Fixtures will have to be treated as Revenue Expenditure In view of the fact, however, that the benefit to be derived from the removal will last for a number of years to come and in view also of the fact that the expense is of a non-recurring nature, there can be no objection to its being treated as a Deferred Revenue Expenditure item and spread over a term of years, say from three to five years and a proportionate amount charged to the Revenue

(b) The expenses incurred in removal of stock may also be dealt with in the same manner as above.

(c) The difference between the book value of the machine sold, viz. Rs. 1,700 and the amount realised on sale, viz. Rs. 450 will have to be charged off to Revenue as depreciation. Rs. 2,400, the cost of the new machine, will have to be capitalised.

(d) Rs. 150 expended on Freight, Cartage and on erection of the new machine can be debited to Plant and Machinery Account and thus capitalised.

(e) In this case also, the difference of Rs. 900 between the book value of the Furniture discarded and the amount realised therefrom will be written off to Revenue Account and the cost of new Furniture will be capitalised.

(f) The sum expended in painting the factory cannot be treated as capital expenditure, but will have to be charged off to Revenue. It may, however, be distributed over a period of three years in order that the Revenue Account of any one year may not be burdened with a heavy expenditure of a non-recurring nature.

Q. 132. *State clearly how you would deal with the following in the books of a Theatrical Company:—*

(a) *Amount expended on equipping the theatre with sitting accommodation, decoration, carpets, gas and electric fittings, Rs.* 15,750.

(b) *Purchase of Organ, piano and other musical instruments for the theatre, Rs.* 3,350.

(c) *Amount expended in providing Uniforms for Staff, Rs.* 650.

(d) *After three years, the Organ which had originally cost Rs.* 1,500 *and which had been depreciated by* 10% *each year was sold for Rs.* 750 *and was replaced by a more up-to-date one costing Rs.* 1,800.

(e) *Under orders of the local authorities, alterations had to be made in the location of some of the exits which cost Rs.* 250.

(f) *Due to a leakage of rain-water through the roof, the wall-paper got damaged and repairs had to be done to the roof as also the wall-paper, the whole costing Rs.* 750.

A. (a) The whole of the amount expended on equipping the theatre with sitting accommodation, decoration, carpets, gas and electric fittings will be capitalised.

(b) The cost of Organ, piano and other musical instruments will be capitalised.

(c) The amount expended on Uniforms for Staff will be capitalised.

(d) The difference between the book value of the Organ, Rs 1,050 and the amount realised from sale viz Rs 750 will have to be charged off to Revenue and the whole cost of the new Organ will be capitalised

(e) The necessary alterations made in the location of Exits under orders from local authorities would not in any way add to the capital value of the theatre and the cost thus incurred cannot therefore be capitalised. The amount expended will have, therefore, to be written off to Revenue

(f) The amount expended on repairs to roof and wall paper must be charged off to Revenue

Q 133 *Explain fully what you know by a Receipts and Payments Account*

A A Receipts and Payments Account is a summary of actual cash receipts and payments extracted from the Cash Book covering a particular period. All cash received and paid during the period, whether on account of capital or revenue would be included in this account The receipts are entered on the debit side and the payments on the credit Athletic and sports clubs, charitable institutions etc where the object of the enterprise is of supplying a want and not that of profit making generally present periodical accounts in this form to their members and subscribers The account commences with the opening balance of cash and similarly closes with the balance of cash at the end of the period As it is a mere summary of cash transactions it does not include any income or expense outstanding and naturally fails to reveal the actual income or expenditure of the period it covers

Q 134 *What do you understand by an Income and Expenditure Account?*

A This is a Revenue Account prepared by non trading concerns such as educational institutions hospitals etc and includes all income earned during a given period (whether actually received or not), and all expenditure incurred for the purpose of earning such income (whether actually paid or not) This account serves exactly the same purpose as the Profit and Loss Account in a trading concern. The income in this case will be set out on the credit, and the expenditure on the debit It will naturally include revenue items only and will serve to indicate either the excess of income over the expenditure during the period, or vice versa. As this account takes the place of Profit and Loss Account, it presupposes the books having been maintained on Double Entry principles and must always be accompanied by its relative Balance Sheet.

Q 135 *Given a Receipts and Payments Statement of a particular period, what steps would you take to convert it into an Income and Expenditure Account?*

A. The steps necessary to convert a Receipts and Payments Account into an Income and Expenditure Account will be as under:—

1. Exclude opening and closing Cash Balances.
2. Eliminate all items of capital receipts and payments.
3. Exclude income of the previous period or any income received in advance.
4. Provide for accrued income, i.e., income earned during the period and not received.
5. Exclude expenditure either of the preceding period or the succeeding period.
6. Provide for expenditure due and not paid.
7. Bring into account items such as bad debts, depreciation, etc., as would affect the net income.

Q. 136. *Mention the important points of distinction between a Receipts and Payments Account and an Income and Expenditure Account.*

A. Points of distinction between a Receipts and Payments Account and an Income and Expenditure Account:—

Receipts and Payments Account	Income and Expenditure Account
1. Is a *summarised* statement of cash transactions of a particular period.	1. Takes the place of Profit and Loss Account in non-trading concerns.
2. Must necessarily commence with the opening balance of cash brought over from the preceding period, if any.	2. Does not commence with any balance.
3. Restricts itself to cash transactions only and does not take any account of outstanding income or expenses.	3. Includes all income whether received or accrued and all expenses whether paid or outstanding.
4. Makes no distinction between capital and revenue receipts or payments, and includes both capital and revenue items.	4. Includes revenue items only.
5. Receipts are shown on the debit side and the payments on the credit.	5. Income is shown on the credit and the expenses on the debit.

Receipts and Payments Account —(contd)	*Income and Expenditure* Account —(contd.)
6 Does not necessarily include items relating to the period it covers and may include receipts or payments appertaining to preceding or succeeding period	6 Must bring into account income or expenses belonging to the period under review
7 Difference between the two sides would represent balance of cash at the close	7 Difference between the two sides would mean either excess of income over expenditure or vice versa
8 Need not necessarily be accompanied by a Balance Sheet	8 Must always be accompanied by its relative Balance Sheet

Q 137 *From the following Receipts and Payments Account of a Charitable Institution and the further information supplied, prepare an Income and Expenditure Account for the year ended 31st December 1967 —*

RECEIPTS AND PAYMENTS ACCOUNT

1967		Rs	Rs	1967		Rs	Rs
Jan 1	To Balance —			Dec 31	By Charities		14 500
	Cash on Deposit	5 000			Staff Salaries		2,600
	Cash on Current Account	2 400			Rent and Taxes		1 200
	Cash in Office	300			Printing & Stationery		300
			7 700		Postage		100
Dec 31	„ Donations		8 000		Advertisements		250
	Subscriptions		4 000		Purchase of Furniture		750
	Endowment Fund Receipts		15 000		„ Investments 5% Rs 15 000 Tax free Loan at par		15 000
	Legacies		6 000		Advance against contract for Extension of Premises		5 000
	Interest on Investments		9 500		Balance —	Rs	
	„ Interest on Deposits		150		Cash on Deposit	8 000	
	Sale of Old Furniture—		75		Cash on Current Account	2 000	
					Cash in Office	725	
							10 725
		Rs	50 425			Rs	50 425

It was decided to treat one-half of the total amount received on account of Legacies and Donations as income. Rs 200 were owing for Rent, Rs 300 for Staff Salaries and Rs 50 for Advertisements at the end of the financial year Interest on investments Rs 500 had accrued but was not received

A. INCOME AND EXPENDITURE ACCOUNT

For the year ended 31st December 1967

Expenditure		Rs.	*Income*		Rs.
To Charities	.	14,500	By Donations	..	4,000
„ Staff Salaries	.	2,900	„ Subscriptions	..	4,000
„ Rent & Taxes		1,400	„ Legacies	.	3,000
„ Printing and Stationery	.	300	„ Interest on Investments		10,000
„ Postage		100	„ Interest on Deposits	.	150
„ Advertisements		300			
„ Excess of Income over Expenditure	.	1,650			
Rs.		21,150	Rs.		21,150

Note:—The student will note that items of Capital Receipts and Capital Expenditure have been omitted and that outstanding Income and Expenses have been brought into account.

Q. 138. *From the particulars given below prepare an Income and Expenditure Account and a Balance Sheet of the Cosmopolitan Gymkhana for the year ended 31st December 1966:—*

Receipts		Rs.	Rs.	*Payments*		Rs.	Rs.
Life Members' Fees	.		4,000	Lands and Buildings	..		24,500
Donations	..		25,000	Tournament Expenses	..		1,100
Entrance Fees	.		5,000	Furniture	.		1,500
Tournament Fund	.		1,500	Purchase of Sports Materials	..		1,200
Revenue Receipts				*Revenue Payments*			
Subscriptions	..	2,200		Salaries		1,200	
Bar Receipts	..	1,300		Printing and Stationery		125	
Interest on Securities	..	300		Telephone		200	
Cricket Fees	..	500		Gardening	..	130	
Tennis Fees	..	450		Cricket	..	250	
Billiards Fees	..	300		Insurance		120	
Sundries	..	275		Tennis		400	
			5,325	Billiards	..	480	
				Sundries	..	100	
				Bar Expenses including Purchases	. .	1,500	
							4,505
				Investments	..		6,000
				Bank Current Account Balance	..		1,800
				Cash in Hand	.		220
Rs.			40,825	Rs.			40,825

Subscription Fees outstanding for the year 1966 and unpaid amounted to Rs. 450 and included in the receipts an amount of Rs 125 represented subscriptions for 1967 received in advance. Salaries unpaid for 1966 amounted to Rs. 175 and Insurance prepaid to Rs. 30. One half of the Entrance Fees received was to be credited to Revenue and Donations and Life Members' Fees were to be capitalised. Interest accrued and not received

amounted to Rs 120 The Sports Materials were valued at Rs. 750 and the Bar Stock at Rs 400 at the end of the year. Depreciate Furniture by 5% and Land and Building by 2½%.

A.

THE COSMOPOLITAN GYMKHANA
INCOME AND EXPENDITURE ACCOUNT
For the year ended 31st December 1966

Expenditure		Rs. P	*Income*	Rs. P
To Salaries		1,375 00	By Subscriptions	2,525 00
„ Bar Expenses		1,100 00	„ Entrance Fees	2,500 00
„ Billiards		480 00	„ Bar Receipts	1,300 00
„ Tennis		400 00	„ Interest on Securities	420.00
„ Cricket		250 00	„ Cricket Fees	500 00
„ Telephone		200 00	„ Tennis „	450.00
„ Gardening		130 00	„ Billiards „	300 00
„ Printing and Stationery		125 00	„ Sundries	275 00
„ Sundries		100 00		
„ Insurance		90.00		
„ Depreciation —	Rs. P			
Land and Building	612 50			
Sports Materials	450 00			
Furniture	75 00			
		1,137.50		
„ Excess of Income over Expenditure		2,882.50		
	Rs.	8,270 00	Rs.	8,270.00

BALANCE SHEET
As at 31st December 1966

Liabilities and Capital Fund		Rs. P.	*Assets*	Rs. P	Rs P.
Liabilities for Expenses		175 00	Lands and Buildings	24,500.00	
Subscriptions received in advance		125 00	*Less* Depreciation	612.50	
Tournament Fund		400 00			23,887.50
Capital Fund.—	Rs. P.		Furniture	1,500.00	
Donations	25,000 00		*Less* Depreciation	75 00	
Life Members' Fees	4 000 00				1 425 00
Entrance Fees	2,500 00		Sports Materials	1,200.00	
			Less written off	450 00	
	31,500 00				750.00
Excess of Income over			Bar Stock		400 00
Expenditure	2,882.50		Investments at cost		6,000 00
		34,382.50	Outstanding Subscriptions		450.00
			Interest accrued		120.00
			Prepaid Insurance		30.00
			Cash at Bank	1,800 00	
			Cash in Hand	220.00	
					2 020 00
	Rs.	35,082.50		Rs.	35,082.50

Q. 139. *The Balance Sheet of a Public Library showed as follows on 1st July 1966:—*

		Rs.			Rs.
	To Balance, 1-1-1965 ..	2,400	By Secretary's Salary	..	3,600
	„ Entrance Fees ..	500	„ Upkeep of Grounds	..	2,100(c)
(a)	„ Subscriptions ..	8,700	„ Wages of Groundsmen	..	2,400(d)
	„ Proceeds of Concerts .	1,500	„ Ground Rent	..	150
(b)	„ Interest on Investments ..	500	„ Printing and Postage	..	200
			„ Sundry Repairs	..	175
			„ Balance, 31-12-1966	..	4,975
	Rs.	13,600		Rs.	13,600

(a) This item includes Subscriptions outstanding brought over from previous year, Rs. 500.

(b) This amount includes Rs. 100 in respect of interest accrued in the preceding period.

(c) This item includes Rs. 300 applicable to the previous year.

(d) This item includes Rs. 150 applicable to the previous year.

Other Ledger Balances at the commencement of the financial period were: Capital Fund Rs. 40,100; Income and Expenditure Account Credit Balance brought forward Rs. 8,900; Club Premises and Grounds (as per valuation) Rs. 30,000; Investments Rs. 10,000; Sports Materials Rs. 2,450; Furniture and Fixtures Rs. 4,000.

From the above particulars, prepare a Balance Sheet at the commencement of the period, and Income and Expenditure Account for the period and a Balance Sheet as at the close of the period.

Entrance Fees are to be capitalised. The outstanding Liabilities on 31st December 1966 were: Wages Rs. 200 and Printing Rs. 100. Interest accrued and outstanding on Investments was Rs. 120. Depreciate Club Premises by 2 per cent, Furniture by 5 per cent and Sports Equipment 33-1/3 per cent.

A.

THE BENGAL SPORTS CLUB

BALANCE SHEET

As at 1st January 1966

	Rs.			Rs.
Capital Fund ..	40,100	Cash Balance	..	2,400
Income and Expenditure Account—		Club Premises	..	30,000
Credit Balance b fd. ..	8,900	Investments	..	10,000
Outstanding Creditors for Expenses ..	450	Furniture and Fixtures	..	4,000
		Outstanding Interest	..	100
		Outstanding Subscriptions	..	500
		Sports Equipment	..	2,450
Rs.	49,450		Rs.	49,450

INCOME AND EXPENDITURE ACCOUNT
For the year ended 31st December 1966

Expenditure		Rs P	*Income*	Rs P
To Secretary s Salary		3 600 00	By Subscriptions	8,200 00
„ Wages of Groundsmen		2,450 00	Proceeds of Concerts	1 500 00
Upkeep of Grounds		1 800 00	Interest on Investments	520 00
„ Printing and Postage		300 00		
Sundry Repairs		175 00		
Ground Rent		150 00		
Depreciation —	Rs P			
Sports Equ pment	816 66			
Premises etc	600 00			
Furniture etc	200 00			
		1 616 66		
To Excess of Income over Exp n diture		128 34		
Rs		10 220 00	Rs	10 220 00

THE BENGAL SPORTS CLUB
BALANCE SHEET
As at 31st December 1966

Liabilities and Capital Fund		Rs P	*Assets*		Rs P
Outstanding for Expenses		300 00	Premises Grounds etc as per last Balance Sheet	Rs P 30 000 00	
Capital Fund as per last Balance Sheet	Rs P 40 100 00		*Less* Depreciation	600 00	
Add Entrance Fees	500 00				29 400 00
		40 600 00			
Income & Expenditure Account —			Furniture & Fixtures as per last Balance Sheet	4 000 00	
Credit Balance as per last Balance Sheet	8 900 00		*Less* Depreciation	200 00	
Add Excess of Income over Expenditure this year	128 34				3 800 00
		9 028 34	Sports Equipment as per last Balance Sheet	2 450 00	
			Less Depreciation	816 66	
					1 633 34
			Investments as per last Balance Sheet		10 000 00
			Interest Outstanding		120 00
			Cash Balance		4 975 00
Rs		49 928 34	Rs		49 928 34

Q 141 *The following particulars relate to the Blank Sports Club*

INCOME AND EXPENDITURE ACCOUNT
For the year ended 31st December 1967

	Rs		Rs
To Secretary s Salary	1 500	By Entrance Fees	10 500
„ Printing and Stationery	2 200	Subscriptions	15 600
Advertising	1 600	„ Rents Receivable	4 000
„ Audit Fees	500		
„ Fire Insurance	1 000		
Depren on Sports Equ pment	9 000		
„ Balance—Excess of Income over Expenditure	14 300		
Rs	30 100	Rs	30 100

RECEIPTS AND PAYMENTS ACCOUNT
For the year ended 31st December 1967

			Rs.			Rs.
To Balance, 1st January		..	4,200	By Secretary's Salary	..	1,000
„ Entrance Fees	1966		1,000	„ Printing and Stationery	..	2,600
„ „ „	1967	..	10,000	„ Advertising	..	1,600
„ Subscriptions	1966	.	600	„ Fire Insurance	..	1,200
„ „	1967	.	15,000	„ Investments Purchased	..	20,000
„ „	1968	..	400	„ Balance, 31st December	..	7,800
„ Rents Received		..	3,000			
		Rs.	34,200		Rs.	34,200

The assets on 1st January 1966 included Club Grounds and Pavilion Rs. 44,000, Sports Equipment Rs. 25,000 and Furniture and Fixtures Rs. 4,000. Prepare the Opening and Closing Balance Sheets.

A. BALANCE SHEET
As at 1st January 1967

Liabilities and Capital Fund		Rs.	*Assets*		Rs.
Liability for Printing & Stationery	..	400	Club Grounds and Pavilion	..	44,000
Capital Fund	.	78,400	Furniture and Fixtures	..	4,000
			Sports Equipment	..	25,000
			Entrance Fees Outstanding	..	1,000
			Subscriptions Outstanding	..	600
			Cash at Bank	..	4,200
	Rs.	78,800		Rs.	78,800

BALANCE SHEET
As at 31st December 1967

			Rs.				Rs.
Liability for Expenses :—		Rs.		Club Grounds and Pavilion		..	44,000
Secretary's Salary	..	500		Furniture and Fixtures		..	4,000
Audit Fees	..	500		Sports Equipment as per		Rs.	
			1,000	last Balance Sheet	..	25,000	
Subscription received in advance	..		400	*Less* Depreciation	..	9,000	
Capital Fund :—							16,000
As per last Balance Sheet		78,400		Investments at Cost		..	20,000
Add Excess of Income				Rent Receivable		..	1,000
over Expenditure	..	14,300		Subscriptions Outstanding		..	600
			92,700	Entrance Fees Outstanding		..	500
				Cash at Bank		..	7,800
				Insurance Prepaid		.	200
		Rs.	94,100			Rs.	94,100

Q. 142. *What is a Revenue Account?*

A. The term Revenue Account is another name for Profit and Loss Account. It is used chiefly by Insurance Companies, Shipping Companies and other large industrial undertakings, such as Railways, Gas Companies, Electric Light and Power Companies, etc., which have to prepare their accounts in a prescribed form.

Q 143 *Define —(1) Fixed Assets (2) Floating Assets (3) Fictitious Assets (4) Wasting Assets (5) Liquid Assets (6) Fixed or Permanent Capital (7) Circulating or Floating Capital (8) Loan Capital (9) Working Capital (10) Watered Capital*

A 1. **Fixed Assets.**—Assets acquired or owned by a concern for the purpose of its equipment are known as Fixed Assets such as Land, Buildings Plant and Machinery, Furniture and Fixtures, etc

2 **Floating Assets.**—Assets acquired for the purpose of re-sale or for being consumed in course of the business or held temporarily for the purpose of being converted into money at a subsequent date are known as Floating Assets such as Stock, Debtors Bills Receivable, etc

3 **Fictitious Assets** are those that represent intangible expenditure such as preliminary expenses or other items of revenue expenditure or losses which are temporarily held over and shown on the assets side of the Balance Sheet.

4 **Wasting Assets** are those assets which get exhausted or consumed through being worked, such as mines, quarries or assets which depreciate through wear and tear such as plant and machinery

5 **Liquid Assets** are those which are represented by cash or such other assets as can be readily turned into cash, such as gilt-edged securities, Bills Receivable etc

6 **Fixed or Permanent Capital.**—That portion of the funds of a concern which is represented by assets acquired by way of permanent equipment for the purpose of carrying on the business and not for conversion into cash, is known as Fixed or Permanent Capital.

7 **Circulating or Floating Capital.**—That portion of the funds of a concern which is represented by cash or readily realisable assets acquired for the purpose of immediate conversion into cash, is called Circulating or Floating Capital.

8 **Loan Capital** is sometimes applied to debentures and other fixed loans

9 **Working Capital.**—This term is sometimes used to denote the balance *of capital left for working the business after paying for its fixed assets It is* also applied to the amount by which the 'liquid', i e the readily realisable assets of any concern exceed its current liabilities

10 **Watered Capital** represents that part of the share capital of a company which is not represented by assets having any tangible or realisable value Thus, where a company pays for the purchase of the Goodwill or other assets of an established concern in excess of their true worth, the capital is said to be "watered" The term "Watered Capital' is also applied in a case where a company issues bonus shares The effect of such a step would be to reduce the dividend and premium on the shares without reducing the return to the original shareholders

CHAPTER IV

BILLS OF EXCHANGE

Q. 144. *What is a Bill of Exchange and how would you define it?*

A. In modern commerce, a seller does not always get cash in immediate payment for goods sold, but instead, he is generally satisfied to take from the purchaser what is called a Bill of Exchange. This is a written acknowledgment of debt, given by the debtor to his creditor, the sum due and the time of payment as well as the date and place of payment being set down.

A Bill of Exchange is legally defined as "an unconditional order in writing addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay on demand or at a fixed or determinable future time a sum certain in money to or to the order of a specified person or to bearer."

Q. 145. *Mention the usual parties to a Bill of Exchange.*

A. **Parties to a Bill.**—There are three parties to a Bill of Exchange.

1. The **Drawer,** i.e. the person to whom the amount is owing and who draws the bill.
2. The **Drawee,** i.e. the person who owes the amount and on whom the bill is drawn. After he accepts the bill, he is termed the "Acceptor".
3. The **Payee,** i.e. the person to whom the amount of the bill is payable. Sometimes, the drawer requires the amount to be paid to himself, in which case, the drawer and the payee are the same person.

Q. 146. *What do you understand by the Acceptance of a Bill?*

A. **Acceptance of a Bill.**—The mere fact that a bill is drawn by one person upon another does not make the drawee liable for its value. The Drawee must accept liability before he can be made liable. On receipt of the draft, therefore, the drawee accepts the bill. This is effected by the drawee writing the word "accepted" across the face of the bill together with his signature or by merely putting his signature across the face of the bill. Legally, the drawee's signature alone is sufficient. The acceptance may thus be defined as a signification by the drawee of his assent to the order of the drawer.

Q. 147. *Mention the advantages accruing from a Bill of Exchange.*

A. The advantages of a Bill of Exchange may briefly be summarised as under:—

1 As it is a written and signed acknowledgment of debt, it affords conclusive proof of indebtedness and there can hardly be any defence to an action at Law on a debt due on a Bill of Exchange

2 As it fixes the date of payment, the creditor knows when to expect his money and the debtor also knows when he will be called upon to pay

3 The debtor thus enjoys his full period of credit, as he can never be called upon to pay the amount of the bill before the due date

4 The creditor need not necessarily lock up his money till the due date of the Bill as the latter can be turned into cash by being discounted.

5 It is a negotiable instrument and can be transferred from hand to hand in settlement of debts between persons and firms in the same or different countries

6 It affords an easy means of transmitting money from one place to another

Q. 148. *Explain what you understand by Endorsement, Endorser and Endorsee*

A. On receipt of a bill duly accepted by the drawee, the drawer has in his possession a document representing money or money's worth He can retain this bill in his possession, or exchange it with another person for either cash or goods Before transferring the bill, the drawer has to write his name upon the back of it This is called an **endorsement**, the drawer is now called an **endorser**, the person to whom it is endorsed, an **endorsee**, and the bill is said to have been **endorsed**

Q. 149. *Who is a Holder in Due Course?*

A. **Holder in due course**—A holder in due course is one who has taken a bill, complete and regular on the face of it and before it was overdue, in *good faith and for value*

Q. 150. *What are the requisites of a Negotiable Instrument?*

A. The requisites of a Negotiable Instrument are —

1 It is transferable by delivery, or by endorsement and delivery

2 The property in the instrument passes to the transferee free from any defects in title and without notice to the party liable

3 The holder is able to sue in his own name

Q. 151. *How can a Bill of Exchange be negotiated?*

A. A Bill of Exchange being a negotiable instrument may be transferred from one person to another, who then acquires all the rights in it Any holder may thus transfer a bill unless the bill contains words prohibiting

its transfer (such as a restrictive endorsement). If a bill is payable to bearer, it is transferable by mere delivery; if payable to order, it can be transferred by endorsement and delivery. The holder will then have to put his signature on the back of the bill before transferring it to some one.

Q. 152. *How do you distinguish between a General and a Qualified Acceptance?*

A. **General Acceptance.**—A general acceptance is where the drawee assents without any conditions to the order of the drawer.

Qualified Acceptance.—A qualified acceptance is one which varies the effect of the bill as drawn, in any one of the following ways:—

(a) Qualified as to time—when a two months' bill is accepted payable after three months.

(b) Qualified as to place—accepted payable at a particular place and there only.

(c) Partial—accepted for a part of the amount of the bill.

(d) As to parties—accepted by one or more of the drawees but not all.

(e) Conditional—accepted subject to a certain condition being fulfilled.

The holder of a bill may refuse to take a qualified acceptance and may treat the bill as dishonoured by non-acceptance.

Q. 153. *What are the requisites of a valid endorsement and in what different ways can a Bill be endorsed?*

A. **Endorsements.**—Where a bill is drawn to "order" of the drawer, the latter has to endorse it, i.e. he should put his signature on the back of the bill before transferring it to anyone. The drawer thus becomes the first endorser. The requisites of a valid endorsement are signature on the back of the instrument and delivery.

A bill may be endorsed in any one of the following ways:—

1. **Endorsement in blank.**—This would mean signature of the endorser only; thus "P. Atmaram."

2. **Special Endorsement.**—This would name the person to whom the rights in the bill are transferred; thus

   "Pay B. Sen or order.
   P. Atmaram."

3. **Restrictive Endorsement.**—This would be an endorsement in favour of some definite person only; this

   "Pay B. Sen only,
   P. Atmaram."

4 **Endorsement Sans Recours** (i e without recourse) —By endorsing a bill in this way, the endorser relieves himself from liability to all subsequent endorsees, thus

"Pay B Sen or order,
P Atmaram
Sans Recours "

5 **Facultative Endorsement.**—This is where the endorser waives some right to which he is entitled, thus

"Pay B Sen or order,
Notice of dishonour waived,
P Atmaram "

Notes —(a) The first is called a blank endorsement, and its effect is to make the bill payable to bearer

(b) A special endorsement requires the signature of the endorsee specified before further negotiation

(c) A restrictive endorsement prohibits the further negotiation of the bill

(d) An endorsement *Sans Recours* is generally made by persons who act in a representative capacity as agents and not as principals

Q 154 *Should a Bill be presented for payment, and, if so, when and where should it be presented?*

A. **Presentment for Payment** —Ordinarily, a bill must be duly presented for payment, as otherwise the drawer and the endorsers will be discharged from the liability to pay the amount to the holder A demand bill must be presented within a reasonable time, but a bill drawn so many days or months after date or after sight must be presented on the due date at the place of payment or address of the acceptor mentioned in the bill, or at the acceptor's place of business

Q 155. *Explain the meanings of the terms "On Demand", "At Sight", "After Date", "After Sight" and "Days of Grace"*

A. Bills drawn "on demand" and "at sight" are payable upon presentation to the drawee or acceptor As to the bills drawn "after date", the period begins to run from the date of the bill When a bill is drawn "after sight", the term of the bill begins to run from the date of "sighting", i e, when presented for acceptance In such a case, the date must be stated in the acceptance in order to fix the maturity of the bill

Days of Grace —In case of bills other than those drawn "on demand" or "at sight", three days called "days of grace" are added to the term of the bill, and the bill becomes due and payable on the last day of grace

Q. 156. *How is the time of payment of a Bill of Exchange calculated?*

A. Calculation of Time of Payment.—Where a bill is payable at a *fixed period* after date or after sight, the time of payment is determined by excluding the day from which the time is to begin to run and by including the day of payment. Thus a bill drawn on 5th March at two months after date would mature on the 8th of May.

Q. 157. *How should a person put his signature on a Bill of Exchange in a representative capacity?*

A. When a person signs a bill in a representative capacity, either as drawer, acceptor or endorser, he must clearly specify such representative capacity on his signature, as otherwise, he would become personally liable on such bill.

Thus, a person representing a firm should sign,

"Per pro. C. P. Row & Co.,
Lal Mohan."

In a Limited Company, the signature will take the following form:—

"For and on behalf of Indian Patents, Ltd.,
R. Gupta,
Director."

Q. 158. *What is the liability of parties to a Bill of Exchange?*

A. Liability of parties to a Bill.—The acceptor is always the person who is primarily liable for the payment of a bill; and when the drawer transfers the bill to another by endorsement, he in his turn becomes liable with the acceptor to the holder of the bill, and so does every subsequent endorser, the security thus increasing with endorsement.

This is, of course, provided the holder of the bill takes the requisite proceedings in case of dishonour of the bill and gives notice of dishonour to all parties whom he seeks to hold responsible.

Q. 159. *What is a dishonour by non-payment and how should the holder of a Bill proceed under such a circumstance?*

A. Dishonour by non-payment.—A bill is dishonoured by non-payment when it is presented for payment on the due date and the payment is refused. On a bill being thus dishonoured, an immediate right of recourse against the drawer and endorsers accrues to the holder. The holder must then give *immediate notice to all the parties whose names appear on the bill*, and if this is not done, the drawer and the endorsers will be discharged from their obligation.

Although the acceptor of a bill is primarily liable on it, the holder has a right of action against the other parties to the bill. He may sue the drawer and every endorser, of the bill. If he likes, he may sue the immediate endorser, and if the latter pays the amount, that endorser can sue any previous endorser or the drawer. Usually, the drawer takes up the bill on dishonour and then exercises his rights against the acceptor.

Q. 160. *Explain what you understand by:—*

(a) *Noting and Protesting*
(b) *Acceptance for Honour Supra Protest*
(c) *Payment for Honour Supra Protest*
(d) *Referee in Case of Need*

A. (a) **Noting and Protesting.**—When a bill is dishonoured, the holder usually hands it to a Notary Public, who re-presents it to the acceptor for acceptance or for payment, as the case may be, and thus obtains a legal evidence of dishonour. The notary public notes the particulars of the bill, the fact that it was re-presented and the reason given for non-acceptance or non-payment. When a foreign bill is dishonoured, it is necessary to have it "protested" in order to maintain the holder's rights against the drawer and the endorsers. A "protest" is thus a formal record of dishonour, as above stated, signed by the notary public and including a copy of the bill.

(b) **Acceptance for Honour Supra Protest.**—Where a bill is dishonoured by non-acceptance and has been protested and is not overdue, any person, not being already liable thereon, may with the consent of the holder, accept the bill *supra protest*. The acceptor for honour engages to pay the bill according to the tenor of his acceptance, if it is not paid by the drawee on presentation and after it is protested for non-payment and he receives notice to this effect. The acceptor for honour is liable to the holder and to all the parties to the bill subsequent to the party for whose honour he had accepted.

(c) **Payment for Honour Supra Protest.**—On a bill having been dishonoured and protested for non-payment, any person, not already liable thereon, may pay it *supra protest* for the honour of the party liable thereon, or for the honour of the person for whose account the bill was drawn.

(d) **Referee in case of need.**—A drawer sometimes marks the bill as follows:—

"In case of need apply to .... ", thus meaning the party who will act on his behalf in the event of dishonour by non-acceptance or non payment. The person named in this manner is called "Referee in Case of Need".

Q. 161. *What do you understand by Foreign and Documentary Bills?*

A. **Foreign and Documentary Bills.**—Foreign Bills are those which are drawn in one country and payable in another country. They are usually drawn in a set of three, so that in the event of one of the parts being delayed or lost in transit, the second or third copy may be acted upon by the parties. Where a bill is drawn in a set, each part of the set contains a reference to the others and only one part must be accepted. In order to avoid the delay arising from such bill being lost in transit, the three forms are posted by different mails and on one of these being paid, the others become useless. Foreign Bills are usually accompanied by shipping documents, such as Bill of Lading, Invoice and the Insurance Policy relating to the goods against which the bills are drawn, and are then known as Documentary Bills.

Q. 162. *What are Accommodation Bills?*

A. **Accommodation Bills.**—These are bills drawn, accepted and negotiated for the temporary accommodation of either the drawer or the acceptor, or for mutual accommodation of both, and are not the outcome of genuine business transactions. No valid consideration passes between the drawer and the acceptor, in spite of the words "for value received", and the object of the bill is served by raising the necessary amount by discounting it with bankers. The discount is borne by the parties in the same proportions in which they share the proceeds, and each party to the accommodation engages to provide the acceptor with funds for the payment of the bill at maturity. Such bills are also termed "kites" or "windmills".

Q. 163. *What are Promissory Notes? Explain and define them.*

A. **Promissory Notes.**—Sometimes, the debtor gives to the creditor a promise in writing to pay to the creditor a certain sum of money either on demand or at a fixed future date. Such a promise is signed by the debtor and handed over to the creditor, and is called a Promissory Note.

A Promissory Note is defined as "an unconditional promise in writing made by one person to another signed by the maker engaging to pay on demand or at a fixed or determinable future time a sum certain in money to or to the order of a specified person, or to bearer."

A Promissory Note is a negotiable instrument just like a Bill of Exchange, and can be transferred for value.

Q. 164. *Mention the usual parties to a Promissory Note.*

A. **Parties to a Promissory Note.**—There are two parties to a Promissory Note:—

1. The **Maker**, i.e. the one who writes out the note, viz. the debtor.
2. The **Payee**, i.e. the person in whose favour it is made, viz. the creditor.

Q 165 *State the important points of distinction between a Bill of Exchange and a Promissory Note*

A The points of difference between a Bill of Exchange and a Promissory Note are —

1 A Bill of Exchange is an order drawn by a creditor on his debtor but a Promissory Note is a promise made out by a debtor in favour of his creditor

2 There are three parties to a Bill of Exchange viz the drawer the acceptor and the payee whereas there are only two parties to a Promissory Note viz the maker who draws the note and signs it and the payee i e the creditor to whom the amount is payable

3 A Bill of Exchange requires acceptance but a Promissory Note does not

Q 166 *What is a cheque and what difference is there between a Bearer Cheque and an Order Cheque?*

A A cheque is a written order on a banker to pay on demand a stated sum of money to a person named It is practically a Bill of Exchange drawn on a banker payable on demand

A **Bearer Cheque** is one that is payable to any person who may present it at the bank on which it is drawn and can be cashed or negotiated without previous endorsement

An **Order Cheque** is one that is payable to the person named therein or to any one else as per his order An order cheque needs endorsement before it can be cashed or negotiated

Q 167 *How can the negotiable character of a cheque be stopped?*

A Cheques also belong to the family known as Bills of Exchange and are negotiable instruments But the process of negotiation may be stopped by a restrictive endorsement such as— Pay to C Ramnath only in which case the cheque will be paid to Ramnath or to his bank on his endorsement but not to any other person

Q 168 *Explain* (a) *Open and Crossed Cheques, and* (b) *General Crossing and Special Crossing*

A **Open Cheques** are those that can be cashed across the counter of the bank on which they are drawn

Crossed Cheques cannot be cashed across the counter but must be sent to a banker for collection as the crossing is an indication that the cheque can only be paid through a banker The crossing takes the form of two parallel

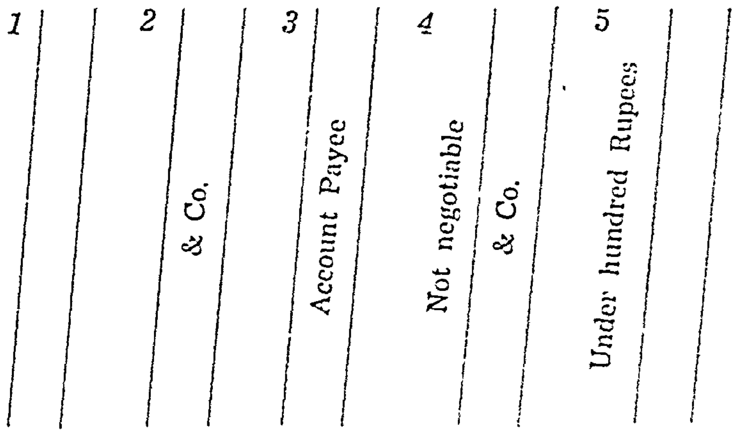
lines drawn across the face of the cheque with or without the words "and Co.", "not negotiable", or the name of a banker.

General Crossing.—A general crossing would consist of two parallel lines drawn across the face of the cheque, with or without the words "and Co." or "and Company", and with or without the words "Not Negotiable".

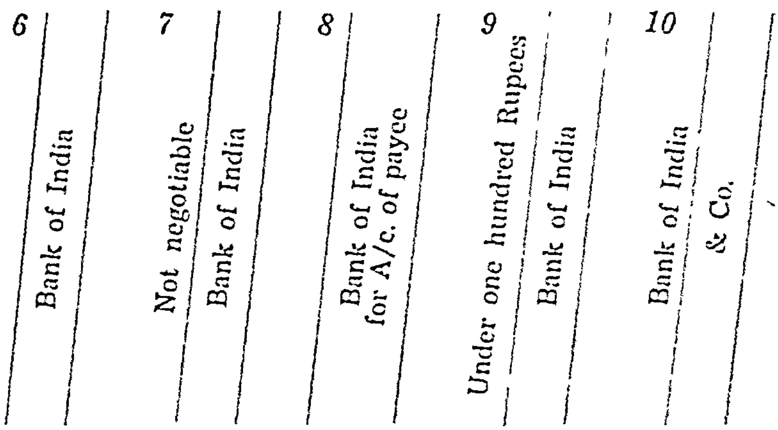
Special Crossing.—A special crossing consists in adding the name of specified banker who will, as a rule, be the payee's banker.

Q. 169. *Give five instances of General Crossings and five of Special Crossings.*

A. GENERAL CROSSINGS



SPECIAL CROSSINGS



Crossing 1, 2, 3, 4 and 5 are called general crossings, and the amount of these cheques can be collected by any banker to whom they are sent for collection, whereas crossings 6, 7, 8, 9 and 10 are called special crossings, as a special bank is named therein and such bank alone can collect the amount of the cheque.

Q. 170 *What is the effect of crossing a cheque with the words "Account Payee only" or "Not Negotiable"?*

A. Account Payee only.—When words to this effect are added to the crossing, they serve as a direction to the collecting banker that the proceeds of the cheques are to be paid only to the credit of the payee named therein.

Not Negotiable.—When these words form part of a crossing on a cheque, they do not prevent further negotiation of the cheque, and the cheque may still be transferred from hand to hand. But the effect of a cheque crossed in this manner is that the person taking such a cheque is not capable of giving it a better title than the person from whom he took it had. The result is that if a transferee in good faith and for value takes such a cheque from one who has stolen it, his title is defective and he cannot enforce payment thereof against the drawer.

Q. 171. *What do you understand by a "Dishonoured Cheque" and when would a cheque be dishonoured by a banker?*

A. Dishonoured Cheques.—When a person draws a cheque in excess of the amount deposited by him with his banker on current account, without previously arranging for an overdraft, the banker will ordinarily refuse payment and the cheque would be said to be dishonoured. The cheque would be returned to the payee with a slip indicating the reason for such refusal in any of the following ways:—

R/D=Refer to Drawer.
N/S=Not sufficient funds.
I/F=Insufficient funds.
N/A=No assets.
N/E=No effects.

The payment of a cheque is sometimes refused and the cheque is returned by the bankers for other reasons indicated on a slip as under:—

"Effects not cleared"=The proceeds of cheques or bills paid in by the drawer have not been collected and credited to drawer's account.

"Payment stopped"=Notice to stop payment having been received from the drawer.

"Endorsement irregular"=The endorsement by the payee on the back of the cheque not properly made.

Q. 172. *Give specimens of the following Bills of Exchange—*

(a) *A Demand Bill, and*
(b) *A Bill payable at a future time.*

A. (a)

Stamp.

Bombay, 15th January 1967.

Rs. 600

On demand pay to me or my order the sum of Rupees Six Hundred for value received.

J. MODY.

Messrs. P. Tukaram & Co.,
Bombay.

Accepted
P. Tukaram & Co.

(b)

Stamp.

Bombay, 5th January 1967.

Rs. 500

Two months after date pay to me or my order the sum of Rupees Five Hundred for value received.

R. GOVIND.

Messrs. Harilal & Sons,
Calcutta.

Accepted payable at
The Bank of India,
Calcutta Branch
Harilal & Sons.

Q. 173. *Give a specimen of a Promissory Note.*

A.

Stamp.

Bombay, 20th July 1967.

Rs. 500

Three months after date, I promise to pay B. Sitaram or order the sum of Rs 500 for value received.

C. DAS.

Q. 174. *Give a specimen of a Foreign Bill drawn in a set of three*

A.

Stamp

Calcutta 20th February 1967

Exchange for £200

Sixty days after sight, pay this First of Exchange (Second and Third of even tenor and date unpaid) to the order of Messrs. Brown and Black, the sum of Two Hundred Pounds Sterling, value in account.

C Cursetji & Co

To Messrs. S Smithson & Co.,
28, Threadneedle St., London.

Stamp

Calcutta, 20th February 1967

Exchange for £200

Sixty days after sight, pay this Second of Exchange (First and Third of even tenor and date unpaid) to the order of Messrs Brown and Black, the sum of Two Hundred Pounds Sterling, value in account

C Cursetji & Co

To Messrs S Smithson & Co.,
28, Threadneedle St., London.

Stamp

Calcutta, 20th February 1967

Exchange for £200

Sixty days after sight, pay this Third of Exchange (First and Second of even tenor and date unpaid) to the order of Messrs Brown and Black, the sum of Two Hundred Pounds Sterling, value in account.

C Cursetji & Co

To Messrs S Smithson & Co.,
28 Threadneedle St., London.

Q. 175. *Give two specimens of Documentary Bills.*

A.

Stamp.

London, 15th July 1967.

Exchange for £575

Sixty days after sight of this First Exchange (Second and Third of the same date and tenor unpaid) pay to the order of Messrs. W. Green & Co., the sum of Five Hundred and Seventy-five Pounds Sterling, value received against P. T. & Co. 121/130=10 Cases of Fancy Goods, per s.s. "Victoria", and place to account as advised. Shipping Documents attached to be surrendered on acceptance.

W. GREEN & Co.

To Messrs. P. Thaker & Co.,
Calcutta.

Stamp.

London, 10th January 1967.

Exchange for £350

Ninety days after sight, pay this First of Exchange (Second and Third of the same date and tenor unpaid) to us or our order the sum of Three Hundred and Fifty Pounds Sterling, payable at the Chartered Bank of India's drawing rate for demand drafts on London, with interest at 5% per annum added thereto from date hereof to approximate due date of arrival of remittance in London, value received against B. G. & Co., 231/250=20 Bales of Cotton Piecegoods per s.s. "Ranpura". Shipping Documents attached to be surrendered on payment.

BROWN ROBERTSON & Co.

To Messrs. Bal Gangadhar & Co.,
Bombay.

Q. 176. *What do you understand by a "Joint Promissory Note" and a "Joint and Several Promissory Note"?*

A. A Joint Promissory Note is one made by two or more parties who become jointly liable thereon.

A Joint and Several Promissory Note is one made by two or more parties who become jointly and severally liable thereon.

Where the promisors are jointly liable only one action can be brought for the recovery of the sum and if a judgment is obtained against one of them only no further action would lie against the other even if it is not fulfilled In case of a joint and several promissory note on a judgment being obtained against one of the parties if the amount is not recovered the holder has a right of action against the other promisors

Q 177 *Explain the difference between a Bill Receivable and a Bill Payable*

A A Bill Receivable and a Bill Payable are not two separate documents but one and the same document looked at from opposite points of view The person who is to receive money on a bill calls it his Bill Receivable and the person who has to pay the money calls it his Bill Payable Thus Bills drawn by the trader on his debtors and accepted by them are his Bills Receivable and those drawn on the trader by his creditors and accepted by him are his Bills Payable

Q 178 *How are Bills Receivable and Bills Payable recorded in a trader s books?*

A All Bills Receivable are entered in a Bills Receivable Book as and when they come in duly accepted by the drawees and all Bills Payable are passed through a Bills Payable Book as and when they are granted duly accepted by the trader

From the Bills Receivable Book the postings will be to credit individually the personal account of each **Giver** and to debit Bills Receivable Account with the periodical total of the book

From the Bills Payable Book the postings will be to debit individually the amount of each person whose bill is accepted and to credit the periodical total of the book to Bills Payable Account

Note —The Forms of Bills Receivable and Bills Payable Books are fully discussed on pages 35 to 37

Q 179 *In what different ways can a Bill Receivable be dealt with?*

A A Bill Receivable can be dealt with by the trader in any one of the following ways —

1 It may be retained by the trader until maturity
2 It may be discounted with his bankers before maturity
3 It may be endorsed over (i e transferred) to a creditor either in full settlement or part payment of a debt owing by the trade or
4 It may be sent to the banker with instructions to collect on maturity

Q. 180. *What entry should be passed in the books of the holder of a Bill Receivable if such Bill is retained by him till the due date?*

A. When a Bill Receivable is retained by the holder till the due date, the amount of Bill Receivable having been credited to the personal account of the acceptor or the endorser, as the case may be, from the Bills Receivable Book, no further entry is needed till the due date of the bill. On receipt of the amount at maturity, the entry would be passed through the receipts side of the cash book, from where the Bill Receivable Account would be credited.

Q. 181. *What do you understand by Discounting a Bill and what entry should be passed when a Bill is discounted?*

A. **Discounting of a Bill Receivable.**—If a trader holds a Bill Receivable which has a long term to run and if he wishes to obtain cash for it before it matures, he sells the bill to a banker or some other person. The purchaser deducts a certain amount of discount (which is interest on the face value of the bill for the time the bill has yet to run) from the amount of the bill and pays the net sum to the holder of the bill. This is called **discounting a bill.**

As the purchaser now has to wait for his money till the bill becomes due, the discount which is the difference between the face value of the bill that he will recover and the present value that he has paid for it, is his gain. To the trader who has sold the Bill, this Discount is a loss.

The entry in regard to the discounting of a bill will be made on the receipts side of the Cash Book, the amount of cash received being shown in the Cash or the Bank Column, and the discount amount in the Discount Column. From here the posting will be to the credit of the Bills Receivable Account. A note will be made in the "How disposed off" column of the Bills Receivable Book against the entry for the particular Bill to the effect that it has been discounted.

Q. 182. *What entry would be passed when a Bill Receivable is endorsed over to another person?*

A. **Endorsement of a Bill Receivable to a Creditor.**—When a Bill Receivable is endorsed over (i.e. negotiated) to a creditor in satisfaction of the whole or a part of the debt owing to him, the transaction would be passed through the Journal. The necessary entry will be to debit the creditor's account and credit the Bills Receivable Account. A note will be made in the Bills Receivable Book against the entry of the particular Bill that it has been negotiated.

Q. 183. *What entries should be passed in respect of Bills sent to Bankers for collection?*

A. **Bill Receivable sent to Banker for collection.**—When a trader receives several Bills Receivable from time to time, he generally sends these to his bankers for collection.

On a Bill Receivable being sent to the Bank for collection, the Journal entry would be to debit an account called "Bank Account for Collection of Bills" and credit the Bills Receivable Account

On receipt of intimation from the banker that a Bill Receivable has been collected by him, the entry would be to debit the Bank Account (Bank Current Account) and credit the 'Bank Account for Collection of Bills" with the amount of such Bill

Q 184 *What entries should be passed when a Bill Receivable is dishonoured by non-payment after it has been dealt with in any one of the following ways —*

(1) *When it is retained till maturity by the recipient,*
(2) *After it has been discounted with bankers,*
(3) *After it has been endorsed over to a creditor, and*
(4) *After it has been sent to a banker for collection?*

A. When the Bill has been retained till the due date and is dishonoured —*In such a case, on the acceptor refusing the payment* the necessary entry would be to debit the account of the person who gave the bill and to credit the Bills Receivable Account

When the Bill had been discounted and is dishonoured.—In such a case, *on receipt of notice from the banker that the bill which had been discounted* with him is now dishonoured, it would be necessary to pay the amount of such bill to the banker The Cash Book entry then would be to debit the person from whom the Bill was received and credit the Bank Account Notarial Charges and Interest if any, paid to the bank will also be debited to the personal account of the party who gave the Bill

When the Bill had been endorsed over to a creditor and is dishonoured —If such a bill is dishonoured, the endorsee would naturally look to the trader for payment and would immediately give him notice of dishonour The entry to be passed by the trader would be to debit the account of the person from whom he had received the bill and credit either the personal account of the endorsee or the Bank Account, as the case may be The Bank Account will have to be credited if the endorsee is paid immediately by cheque

When the Bill had been sent to the Banker for collection and is dishonoured.—If the Bill had been sent to the banker for collection, an intimation as to the dishonour of such bill will be received from the banker and the necessary entry would be to debit the personal account of the party from whom the bill had been received and to credit the 'Bank Account for collection of Bills"

Q 185. *What entry would be passed when a Bill Payable is* (a) *met on the due date, and* (b) *when it is dishonoured?*

A. (a) When a Bill Payable is met on the due date, the entry necessary would be passed from the payments side of the Cash Book, and from here, the Bills Payable Account would be debited. If Journal Entry is asked for, the same would be:—

Bills Payable Account Dr.
To Bank

(b) On dishonour of a Bill Payable, the Journal entry necessary would be:—

Bills Payable Account Dr.
To Creditor's Account

Q. 186. *What do you understand by Renewal of Bills?*

A. **Renewal of Bills.**—It happens sometimes that the acceptor of a Bill finds himself unable to meet his acceptance on the due date. Under such a circumstance, rather than allow such a bill to mature and then dishonour it on presentation, he would approach the drawer of the bill before the due date and request him to cancel the original bill and draw on him another one for an extended period. The acceptor in this case would, of course, have to pay interest for the extension of time. Thus, the cancellation of a Bill already in circulation and before maturity in return for another Bill for an extended period is called Renewal of the Bill. Sometimes, the acceptor pays a part of the amount of the Bill in cash and requests for a new Bill to be drawn on him for the balance *plus* interest. In case of Renewal of a Bill, before passing an entry in respect of the new Bill, and the part cash received, if any, it is necessary to pass an entry cancelling the original bill by means of a Journal Entry.

When a Bill Receivable is renewed with interest, the entry will be:—

(1) Debtor's Account Dr.
To Bills Receivable Account
(To cancel the old Bill.)

(2) Bills Receivable Account Dr.
To Debtor's Account
,, Interest Account
(For the amount of the New Bill including interest.)

When a Bill Payable is renewed with interest, the entry will be:—

(1) Bills Payable Account Dr.
To Creditor's Account

(2) Creditor's Account Dr.
Interest Account ,,
To Bills Payable Account
(For the New Bill and loss of interest.)

Q. 187. *What is the meaning of "Retiring a Bill under Discount" and what entry is passed under such a circumstance?*

A. "Retiring a Bill under Discount" means either receiving payment of a Bill Receivable or making payment on account of a Bill Payable before maturity When a Bill Receivable is retired under discount, the entry will be —

Bank	Dr
Discount	,
To Bills Receivable Account	

When a Bill Payable is retired under discount, the entry will be —

Bills Payable Account	Dr
To Bank	
„ Discount	

Q 188 *Journalise the following Bill Transactions* —

1 Received Vinayek & Son's acceptance, payable at Bank of India, for Rs 200

2 Drew on Walker & Son at one month after date for Rs 350

3 Received of Jones Bros, Ramrao & Co's acceptance to them for Rs 275 at two months after date, payable at the Central Bank of India

4 Gave Smith & Co, our acceptance at 10 days after date, for Rs 400

5 Received Sen & Co's acceptance for Rs 100 from S Sircar

6 Gave Gupta & Co, our Bill Receivable at two months after date for Rs 175

7 P Das handed us a Promissory Note for Rs 80

8 Accepted draft drawn on us at three months after date for Rs 500 by Rustom & Co, in favour of Sorab & Sons

9 Bought goods Rs 200 from Singh & Co, for two months' bill *less 5% discount*

10 Row & Co's Promissory Note for Rs 125 was duly taken up this day

11 Our Promissory Note for Rs 100 to Souza & Co, was redeemed today

12 Sent Cook & Co, one months' draft for Rs 300 duly accepted by us

13 Received Govind & Co's acceptance of our Draft at three months after date for Rs 135, payable at the Imperial Bank

14 Krishna & Co, forward us Smith's acceptance to them for Rs 425, payable at Chartered Bank

15 Received Jones & Co's Draft at one month after date, in favour of Cowasji Bros, for Rs 260 Returned same duly accepted

16 Returned duly accepted P Kanoba's Draft on us for Rs 700 in favour of Birdy & Co

17. Black & Co. forward us T. Green's acceptance to R. White for Rs. 400, payable at the Bank of India.

18. Sold goods for Rs. 550 to Karani & Co., and received in payment our own acceptance to Rane Bros.. for Rs. 550 due today.

19. Saher & Co. retired their acceptance for Rs. 225 under rebate Rs. 20.

20. Received Sight Draft for Rs. 200 from Bepin & Co.

21. Sent Brown & Co., Sight Draft for Rs. 300.

A.

JOURNAL ENTRIES

		L.F.	Rs.	Rs.
1.	Bills Receivable Account .. .. .. Dr. To Vinayek & Sons (Being the acceptance received from them.)		200	200
2.	Bills Receivable Account .. .. .. Dr. To Walker & Sons (Being the acceptance received from them.)		350	350
3.	Bills Receivable Account .. .. .. Dr. To Jones Bros. (Being the acceptance of Ramrao & Co. received of Jones Bros.)		275	275
4.	Smith & Co. .. .. .. Dr. To Bills Payable Account (Being the acceptance given by us.)		400	400
5.	Bills Receivable Account .. .. .. Dr. To S. Sircar (Being the acceptance of Sen & Co., received of S. Sircar.)		100	100
6.	Gupta & Co. .. .. .. Dr. To Bills Receivable Account (Being the endorsement made in favour of Gupta & Co.)		175	175
7.	Bills Receivable Account .. .. .. Dr. To P. Das (Being the Promissory Note received of P. Das.)		80	80
8.	Rustom & Co. .. .. .. Dr. To Bills Payable Account (Being the acceptance of the draft drawn upon us at 3 month's date.)		500	500
9.	Purchases Account .. .. .. Dr. To Bills Payable Account (Being the acceptance given in return for goods Rs. 200 bought of Singh & Co., *less* 5%.)		190	190
10.	Bank .. .. .. Dr. To Bills Receivable Account (Being the amount received in discharge of Row & Co.'s Promissory Note.)		125	125

JOURNAL ENTRIES—*contd*

			L.F.	Rs	Rs
11	Bills Payable Account To Bank (Being the payment made in discharge of our Promissory Note)	Dr		100	100
12.	Cook & Co To Bills Payable Account (Being the amount of our acceptance to them)	Dr		300	300
13	Bills Receivable Account To Govind & Co (Being their acceptance received at 3 months date)	Dr		135	135
14	Bills Receivable Account To Krishna & Co (Being the acceptance of Smith received of Krishna & Co)	Dr		425	425
15	Jones & Co To Bills Payable Account (Being the acceptance given to Jones & Co —1 month)	Dr		260	260
16	P Kanoba *To Bills Payable Account* (Being our acceptance given to Kanoba s Draft.)	Dr		700	700
17	Bills Receivable Account To Black & Co (Being the receipt of T Green s acceptance from them)	Dr		400	400
18	Bills Payable Account To Sales Account (Being the receipt of our own acceptance in payment of goods sold)	Dr		550	550
19	Bank Discount To Bills Receivable Account (Being the amount received before due date allowing a discount of Rs 20)	Dr "		205 20	225
20	Bank Account To Bepin & Co (Being the amount of Sight Draft received from them.)	Dr		200	200
21	Brown & Co To Bank (Being the amount of Sight Draft sent to them.)	Dr		300	300

Q 189 *A Bill for Rs* 600 *is drawn by Bhogilal & Co, on C Narandas and accepted by the latter payable at the Central Bank of India Show what entries should be passed in the Books of Bhogilal & Co, under each of the following circumstances —*

1 If they retained the Bill till the due date and then realised it on maturity,

2 If they discounted with their bankers for Rs 580,

3. If they endorsed it over to their creditors Cox & Co. in settlement of their debt;

4. If they sent the same to their bankers for collection.

A.

ENTRIES IN BHOGILAL & CO.'S BOOKS

			L.F.	Rs.	Rs.
1.	Bank Account	Dr.		600	
	To Bills Receivable Account				600
	(Being the amount of the Bill realised on maturity.)				
2.	Bank Account	Dr.		580	
	Discount Account	"		20	
	To Bills Receivable Account				600
	(Being the amount realised on discounting the Bill.)				
3.	Cox & Co.	Dr.		600	
	To Bills Receivable Account				600
	(Being the endorsement made in favour of Cox & Co. in full settlement of our debt.)				
4. (*a*)	At the time of sending the Bill Receivable to Bank for collection:—				
	Bank for collection of Bills Account	Dr.		600	
	To Bills Receivable Account				600
	(Being the transfer of the Bill made to our Bankers for collection.)				
4. (*b*)	On receipt of information from Bankers as to the collection of the Bill on due date:—				
	Bank Account	Dr.		600	
	To Bank for collection of Bills Account				600

Q. 190. *State what further entries would be passed in the books of Bhogilal & Co. under each of the above circumstances, if the Bill was dishonoured on the due date.*

A.

ENTRIES IN BHOGILAL & CO.'S BOOKS

			L.F.	Rs.	Rs.
1.	C. Narandas	Dr.		600	
	To Bills Receivable Account				600
	(Being the dishonour of the acceptance given to us by the former.)				
2.	C. Narandas	Dr.		600	
	To Bank				600
	(Being the payment made by us to our Bankers on dishonour of the bill after it had been discounted by us.)				
3.	C. Narandas	Dr.		600	
	To Cox & Co.				600
	(Being the dishonour of the bill after it had been endorsed in favour of our creditors.)				

NOTE —If Cox & Co, insist on being paid immediately and on a payment being made to them, the entry would be:—

JOURNAL ENTRIES—*contd*

		L.F.	Rs.	Rs.
	C. Narandas .. Dr. To Bank		600	600
4	C. Narandas . Dr To Bank for Collection of Bills Account (Being the entry for the dishonour of the Bill after the same had been sent to Bankers for collection.)		600	600

Q. 191. *P draws a Bill for Rs. 400 on Q. Q accepts it and duly returns it to P P endorses it over to R and R endorses it to S. The latter discounts it receiving Rs 390 in cash The Bill is then dishonoured on due date, the noting charges incurred by the bankers amounting to Rs 10 Pass the necessary Journal Entries in the books of all the parties concerned, assuming that the bill is taken up by P on dishonour*

A.

ENTRIES IN P's BOOKS

	L.F	Rs	Rs.
Bills Receivable Account .. .. .. Dr To Q (Being the acceptance received from him.)		400	400
R .. .. Dr. To Bills Receivable Account (Being the endorsement made in favour of R.)		400	400
Q .. .. . Dr To Bank (Being the amount paid with Noting Charges on dishonour of the bill by Q)		410	410

ENTRIES IN Q's BOOKS

	L.F.	Rs.	Rs.
P .. . .. Dr. To Bills Payable Account (Being the acceptance given to P)		400	400
Bills Payable Account .. .. .. *Dr* Notarial Charges .. . . " To P (Being the entry for the dishonour of our acceptance to P.)		400 10	410

ENTRIES IN R's BOOKS

	L.F.	Rs.	Rs.
Bills Receivable Account .. .. .. Dr.		400	
To P			400
(Being the entry for receiving a bill endorsed in our favour from P.)			
S .. .. .. Dr.		400	
To Bills Receivable Account			400
(Being the endorsement of the Bill in favour of S.)			

ENTRIES IN THE BOOKS OF S

	L.F.	Rs.	Rs.
Bills Receivable Account .. .. .. Dr.		400	
To R			400
(Being the entry for receiving a bill endorsed in our favour by R.)			
Bank .. .. .. Dr.		390	
Discount .. .. .. "		10	
To Bills Receivable Account			400
(Being the entry for discounting the Bill with the Bankers.)			

NOTE:—No further entry need be passed in the books of S, as the bankers have been paid by P.

Q. 192. *Jayaram having accepted a bill for Rs. 500 is unable to meet the same. Before the due date, he requests Gangaram to receive Rs. 320 in cash (Rs. 20 being for interest) and to draw on him a new bill for Rs. 200 for a further period of three months, and cancel the old bill which is shortly to become due. Gangaram agrees to this proposal. Pass entries in the books of both the parties to the transactions.*

A. ENTRIES IN THE BOOKS OF GANGARAM

The transaction would be recorded in the books of Jayaram as follows:—

	L.F.	Rs.	Rs.
Jayaram .. .. .. Dr.		500	
To Bills Receivable Account			500
(For cancellation of the old bill.)			
Bank .. .. .. Dr.		320	
To Jayaram			300
" Interest Account			20
(Being the amount received from Jayaram including interest.)			
Bills Receivable Account .. .. .. Dr.		200	
To Jayaram			200
(Being the amount of new bill accepted by him.)			

ENTRIES IN THE BOOKS OF JAYARAM

		L F	Rs	Rs
Bills Payable Account To Gangaram (Being the cancellation of the old bill)	Dr		500	 500
Gangaram Interest Account To Bank (Being the cash paid in part payment of the old bill including Rs 20 for Interest)	Dr		300 20	 320
Gangaram To Bills Payable Account (*Being the amount of the fresh acceptance.*)	Dr		200	 200

Q 193 *Journalise the following transactions —*

1 Javeri & Son's acceptance for Rs 350 renewed for three months, *plus Rs 25 for interest*

2 Retired our acceptance to Brown & Co for Rs 500 by cheque Rs 200 and a new bill for the balance at two months after date with interest Rs 15

3 Our acceptance to King & Co, for Rs 400 renewed for three months with interest at 5%

4 Smithson & Co retire their acceptance for Rs 800 by cheque Rs 300 and a new bill at four months' date for the balance, interest at 6% being paid in cash forthwith

5 Aladin & Co (our creditors), notify us the dishonour of P Swami's acceptance for Rs 650, due this day noting charges Rs 12 50 P being paid by them We withdraw same in exchange for our cheque

6 Our own acceptance to Dawood & Co, for Rs 435 dishonoured this day *(due to omission of necessary instructions to our bankers to pay)* Received claim from Dawood & Co, for Rs 450 including Noting Charges, which we settle by cheque

A JOURNAL ENTRIES

			L.F	Rs	Rs
1	Javeri & Sons To Bills Receivable Account (Being the cancellation of the old bill)	Dr		350	 350
	Bills Receivable Account To Javeri & Sons „ Interest Account (Being the receipt of another acceptance for Rs 375 in place of the old inclusive of Rs 25 for interest.)	Dr		375	 350 25

JOURNAL ENTRIES—*contd.*

		L.F.	Rs. P.	Rs. P.
2.	Bills Payable Account .. .. .. Dr. To Brown & Co. (Being the entry for cancellation of our old acceptance.)		500.00	500.00
	Brown & Co. .. .. .. Dr. Interest .. .. .. „ To Bank „ Bills Payable Account (Being our cheque and new acceptance with interest handed in cancellation of our former acceptance.)		500.00 15.00	 200.00 315.00
3.	Bills Payable Account .. .. .. Dr. To King & Co. (Being the cancellation of the old acceptance.)		400.00	400.00
	King & Co. .. .. Dr. Interest Account .. .. „ To Bills Payable Account (Being our acceptance given for Rs. 405, the excess amount of Rs. 5 being charged as interest.)		400.00 5.00	405.00
4.	Smithson & Co. .. .. Dr. To Bills Receivable Account (Being the cancellation of their old acceptance.)		800.00	800.00
	Bank .. .. Dr. Bills Receivable Account .. .. .. „ To Smithson & Co. „ Interest (Being the new Bill and Cheque received from Smithson & Co.)		310.00 500.00	 800.00 10.00
5.	P. Swami .. .. Dr. To Bank (Being our cheque issued to Aladin & Co. on dishonour of P. Swami's acceptance which we had endorsed over to them, including Notarial Charges.)		662.50	662.50
6.	Bills Payable Account .. .. .. Dr. General Expenses Account .. .. .. „ To Dawood & Co. (Being the dishonour of our acceptance and the Notary charges on dishonour payable to them.)		435.00 15.00	450.00
	Dawood & Co. .. .. .. Dr. To Bank (Being the amount remitted by cheque in accordance with their claim.)		450.00	450.00

Q. 194. *On 15th March B. Butler accepts a 4 months' bill for Rs. 500 drawn on him by J. Jones for the mutual accommodation of both. The bill is then discounted by the latter at the rate of 6 per cent and half the proceeds are remitted to Butler. At maturity J. Jones sends a cheque to Butler who meets the bill. Pass entries in the books of the parties.*

A.

BOOKS OF J JONES

JOURNAL ENTRIES

Date	Particulars		L.F	Rs.	Rs.
Mar 15	Bills Receivable Account To B Butler (Being the acceptance of the Bill by B Butler)	Dr		500	500
" "	Bank Account Discount Account To Bills Receivable Account (Being the amount received on discounting the Bill.)	Dr "		490 10	500
" "	B Butler To Bank Account " Discount Account (Being the remittance of half the proceeds to Butler)	Dr		250	245 5
July 18	B Butler To Bank (Being the balance remitted to Butler at maturity of the bill.)	Dr		250	250

BOOKS OF B BUTLER

JOURNAL ENTRIES

Date	Particulars		L.F	Rs	Rs
Mar 15	J Jones To Bills Payable Account (Being the acceptance of J Jones Bills)	Dr		500	500
" "	Bank Account Discount Account To J Jones (Being the half-share of proceeds received from J Jones.)	Dr "		245 5	250
July 18	Bank Account To J Jones (Being the balance received from J Jodes at maturity)	Dr		250	250
" "	Bills Payable Account To Bank (Being the payment of the bill)	Dr		500	500

Q 195 *On 10th July, J Jairam and T Tukaram draw on one another at 2 months for Rs 600 for their mutual accommodation. They discount each other's bills at the rate of 5 per cent and, at maturity, each party honours his own acceptance Pass entries in the books of both the parties*

A.

J. JAIRAM'S BOOKS
JOURNAL ENTRIES

		L.F.	Rs.	Rs.
July 10	Bills Receivable Account .. .. .. Dr. To T. Tukaram (Being the acceptance of the bill by Tukaram.)		600	600
" "	T. Tukaram .. .. Dr. To Bills Payable Account (Being our acceptance of T. Tukaram's Bill.)		600	600
" "	Bank Account .. .. .. Dr. Discount Account .. .. .. " To Bills Receivable Account (Being the amount received on discounting the bill.)		595 5	600
Sept. 13	Bills Payable Account .. .. .. Dr. To Bank (Being the payment of the bill at maturity.)		600	600

T. TUKARAM'S BOOKS
JOURNAL ENTRIES

		L.F.	Rs.	Rs.
July 10	Bills Receivable Account .. .. .. Dr. To J. Jairam (Being the amount of the acceptance received from J. Jairam.)		600	600
" "	J. Jairam .. .. .. Dr. To Bills Payable Account (Being our acceptance of J. Jairam's Bill.)		600	600
" "	Bank Account .. .. .. Dr. Discount Account .. .. .. " To Bills Receivable Account (Being the amount received on discounting the bill)		595 5	600
Sept. 13	Bills Payable Account .. .. .. Dr. To Bank (Being the payment of the bill at maturity.)		600	600

Q. 196. *Roy, for the mutual accommodation of himself and Romer, draws upon the latter a bill at 3 months' date for Rs. 800 dated 1st January. The Bill is discounted by Roy at 5 per cent and half the proceeds are remitted to Romer.*

Romer, at the same time, draws a bill at 3 months on Roy for Rs. 400. After securing Roy's acceptance the bill is discounted at 6% by Romer who remits half the proceeds to Roy. Romer becomes bankrupt on 31st March and 25 P. in the Rupee is received on 15th May as first and final dividend from his estate.

Write up Journal and Ledger Entries in the books of the parties

A.

ROY S BOOKS

JOURNAL ENTRIES

			L.F	Rs	Rs
Jan 1	Bills Receivable Account To Romer *(Being the amount of the bill accepted by Romer)*	Dr		800	800
„ „	Bank Account Discount Account To Bills Receivable Account *(Being the amount received on discounting the bill)*	Dr „		790 10	800
„ „	Romer To Bank Account „ Discount Account *(Being our remittance of half the proceeds to Romer)*	Dr		400	395 5
„	Romer To Bills Payable Account (Being our acceptance of Romer s Bill)	Dr		400	400
„	Bank Account Discount Account To Romer (Being the receipt of half share of proceeds from Romer)	Dr „		197 3	200
April 4	Romer To Bank Account (Being the amount paid to Bank on dishonour of the bill by Romer)	Dr		800	800
„ „	Bills Payable Account To Bank (Being the payment of our acceptance at maturity)	Dr		400	400
May 15	Bank To Romer (Being the receipt of a dividend of 25 P in the Rupee in full satisfaction of our claim against Romer for Rs 600)	Dr		150	150
„ „	Bad Debts Account To Romer (Being the balance on Romer s account irrecoverable now written off as bad debt)	Dr		450	450

ROMER S ACCOUNT

(In Roy s Books)

		Rs			Rs
Jan 1	To Bank Account	395	Jan 1	By Bills Receivable Account	800
	„ Discount Account	5		„ Bank Account	197
	„ Bills Payable Account	400		„ Discount Account	3
April 1	„ Bank Account	800		„ Bank	150
			May 15	„ Bad Debts	450
	Rs	1,600		Rs	1 600

ROMER'S BOOKS
JOURNAL ENTRIES

			L.F	Rs.	Rs.
Jan. 1	Roy .. .. Dr. To Bills Payable Account (Being our acceptance of Roy's Bill.)			800	800
" "	Bank Account .. .. Dr. Discount Account .. .. " To Roy (Being the receipt of half share of proceeds from Roy.)			395 5	400
" "	Bills Receivable Account .. .. .. Dr. To Roy (Being the acceptance of our bill by Roy.)			400	400
" "	Bank Account .. .. Dr. Discount Account .. .. " To Bills Receivable Account (Being the amount received on discounting the bill.)			394 6	400
" "	Roy .. .. Dr. To Bank Account " Discount Account (Being the remittance of half the proceeds to Roy.)			200	197 3
April 4	Bills Payable Account .. .. Dr. To Roy (Being the dishonour of the bill on becoming bankrupt.)			800	800
May 15	Roy .. .. Dr. To Bank (Being the payment of a dividend of 25 P. in the Rupee in full satisfaction of Roy's claim of Rs. 600.)			150	150

ROY'S ACCOUNT
(In Romer's Books)

		Rs.			Rs.
Jan. 1	To Bills Payable Account ..	800	Jan. 1	By Bank Account .	395
" "	" Bank Account ..	197		" Discount Account .	5
" "	" Discount ..	3	" "	" Bills Receivable Account .	400
" "	" Bank ..	150	April 4	" Bills Payable Account .	800
May 15	" Balance c/d. .	450			
	Rs.	1,600		Rs.	1,600
			May 15	By Balance b/d. .	450

Note:—The above balance representing a liability will be transferred to the Statement of Affairs of Romer prepared for the purpose of Bankruptcy proceedings.

Q. 197. *On 1st January, Q receives two acceptances from P, one for Rs. 2,000 payable in 2 months, and the other for Rs. 4,000 payable in 4 months in full settlement of account. Both these bills are duly discounted by Q with his bankers on 3rd January at 5%.*

Before maturity of the first bill, P requests Q to assist him in taking it up by advancing him Rs. 1,000 in cash and drawing a third bill on him for a like amount at 3 months' date from the due date of the first bill, plus interest at 5% per annum. Q does the needful and discounts the new bill at 5%.

Just before the maturity of the second bill for Rs 4,000, P again requests Q to assist him to the extent of Rs 2,500 In order to help P, Q arranges with P to draw on him (Q) two Bills for Rs 1,000 and Rs 1,500 at two months and three months respectively from the due date of the second bill Q duly accepts these two bills and delivers them to P, who discounts them at 5% He then duly meets the bill for Rs 4,000/- Q also meets his two acceptances on maturity On 30th May, P becomes bankrupt leaving his third bill unpaid and nothing was recovered from his estate in respect of the claim

Make the necessary Journal and Ledger Entries in the books of both the parties to record the above transactions

A.

Q s BOOKS

JOURNAL ENTRIES

1967			L.F	Rs P	Rs P
Jan 1	Bills Receivable Account To P (Being the amount of two bills accepted by P)	Dr		6 000 00	6 000 00
„ 3	Bank Account Discount Account To Bills Receivable Account (Being the amount received on discounting the two bills)	Dr ,		5 916 67 83 33	6,000 00
Mar 1	P To Bank (Being the amount advanced to P)	Dr		1,000 00	1,000 00
„ 4	Bills Receivable Account To P „ *Interest* (Being the acceptance of the third bill with interest by P)	Dr		1 012.50	1,000 00 12 50
„ „	Bank Account Discount Account To Bills Receivable Account (Being the amount received on discounting the third bill)	Dr „		999 84 12 66	1,012.50
May 4	P To Bills Payable Account (Being our acceptance of two bills drawn by P)	Dr		2,500 00	2,500 00
June 7	P To Bank (Being the amount paid to Bank on dishonour of the third bill by P)	Dr		1,012 50	1,012 50
July 7	Bills Payable Account To Bank (Being the payment of the bill at maturity)	Dr		1,000 00	1,000 00
Aug 7	Bills Payable Account To Bank (Being the payment of the bill at maturity)	Dr		1,500 00	1,500 00
, „	Bad Debts Account *To P* (Being the amount irrecoverable, now written off as bad debt)	Dr		3,512.50	3,512 50

P's ACCOUNT

(In Q's Books)

		Rs. P.			Rs. P.
Jan. 1	To Balance ..	6,000.00	Jan. 1	By Bills Receivable Account ..	6,000.00
Mar. 1	„ Bank ..	1,000.00	Mar. 4	„ Bills Receivable Account ..	1,000.00
May 4	„ Bills Payable A/c. ..	2,500.00	Aug. 7	„ Bad Debts ..	3,512.50
June 7	„ Bank ..	1,012.50			
	Rs.	10,512.50		Rs.	10,512.50

P's BOOKS

JOURNAL ENTRIES

1967		L.F.	Rs. P.	Rs. P.
Jan. 1	Q .. .. .. Dr. To Bills Payable Account (Being the amount of two bills accepted by us.)		6,000.00	6,000.00
Mar. 1	Bank Account .. .. .. Dr. To Q (Being the amount advanced by Q.)		1,000.00	1,000.00
„ 4	Q .. .. .. Dr. Interest Account .. .. .. „ To Bills Payable Account (Being our acceptance of the third bill with Interest drawn by Q.)		1,000.00 12.50	1,012.50
„ „	Bills Payable Account .. .. .. Dr. To Bank (Being the payment of the first bill at maturity.)		2,000 00	2,000.00
May 4	Bills Receivable Account .. .. .. Dr. To Q (Being the amount of two bills accepted by Q.)		2,500.00	2,500.00
„ „	Bank Account .. .. .. Dr. Discount Account .. .. .. „ To Bills Receivable Account (Being the amount received on discounting the two bills.)		2,472.91 27.09	2,500 00
„ „	Bills Payable Account .. .. .. Dr. To Bank (Being the amount paid at maturity of the second bill.)		4,000.00	4,000 00
June 7	Bills Payable Account .. .. .. Dr. To Q (Being the credit given to Q on our dishonouring the bill.)		1,012.50	1,012.50

Q s ACCOUNT
(In P s Books)

		Rs P			Rs P
Jan 1	To Bills Payable Account	6 000 00	Jan 1	By Balance	6 000 00
			Mar 1	Bank	1 000 00
Mar 4	„ Bills Payable Account	1 000 00	May 4	Bills Receivable Account	2,500 00
June 7	Balance c/d	3 512 50	June 7	„ Bills Payable Account	1 012 50
	Rs	10 512 50		Rs	10,512.50
			June 8	By Balance b/d	3 512.50

Note —The credit balance on the above account in P s books will be transferred to P s Statement of Affairs which will be prepared for bankruptcy proceedings

Q 198 *On the 1st October 1966 X drew a Bill on Y for Rs 500 and Y drew a Bill on X for a similar amount, both the bills being for a term of 3 months Both bills were discounted at the bank at 6 per cent On the due date Y met his bill X, however, notified Y of his inability to meet the bill, and Y, therefore, had to take it up X paid Y Rs 200 on 3rd January 1967 and accepted another Bill drawn on him by Y at two months' date for Rs 305 including interest This acceptance having been met by X on the due date, pass Journal Entries in the books of both the parties*

A

X s BOOKS
JOURNAL ENTRIES

			L F	Rs P	Rs P
1966 Oct 1	Bills Receivable Account To Y (Being the amount of the Bill accepted by Y)	Dr		500 00	500 00
	Y To Bills Payable Account (Being our acceptance of the Bill drawn by Y)	Dr		500 00	500 00
	Bank Account Discount Account To B lls Receivable Account (Being the amount received on discounting the Bill)	Dr		492 50 7 50	500 00
1967 Jan 3	Bills Payable Account To Y (Being the credit g ven to Y on our inability to meet the Bill)	Dr		500 00	500 00
„	Y To Bank (Being the amount paid to Y)	Dr		200 00	200 00
	Y Interest To Bills Payable Account (Being our acceptance of the new Bill with interest drawn by Y)	Dr „		300 00 5 00	305 00
„ 6	Bills Payable Account To Bank (Being the payment of the Bill at maturity)	Dr		305 00	305 00

Y's *BOOKS*

JOURNAL ENTRIES

Date	Particulars	L.F.	Rs. P.	Rs. P.
1966 Oct. 1	X .. .. .. Dr.		500.00	
	To Bills Payable Account			500.00
	(Being our acceptance of the Bill drawn by X.)			
" "	Bills Receivable Account .. .. .. Dr.		500.00	
	To X			500.00
	(Being the amount of the Bill accepted by X.)			
" "	Bank Account .. .. .. Dr.		492.50	
	Discount Account .. .. .. "		7.50	
	To Bills Receivable Account			500.00
	(Being the amount received on discounting the Bill.)			
1967 Jan. 3	X .. .. .. Dr.		500.00	
	To Bank			500.00
	(Being the debit given to X on his inability to meet the Bill.)			
" "	Bank Account .. .. .. Dr.		200.00	
	To X			200.00
	(Being the amount received from X.)			
" "	Bills Receivable Account .. .. .. Dr.		305.00	
	To X			300.00
	" Interest			5.00
	(Being X's acceptance of the bill with interest.)			
" 4	Bills Payable Account .. .. .. Dr.		500.00	
	To Bank			500.00
	(Being the payment of the bill at maturity.)			

Q. 199. *From the following particulars, write out entries in the necessary Subsidiary Books and show the Bills Receivable and Payable Accounts.*

The Debtors and Creditors appearing in the books of Roy & Co. on 30th June 1967 were as under:—

Debtors	Rs.	*Creditors*	Rs.
P. Simpson	450	J. Jones	500
Gulab & Sons	787	S. Sen & Co.	620
Mohini Bros.	1,225	Das Bros.	985
Gupta & Co.	2,100	K. Ayengar	1,750
R. Babu Rao	1,500	Sorab & Co.	1,800
A. Sitaram	975	Jacob & Sons	727

The Bank Balance on the same date was Rs. 4,320. All acceptances of Roy & Co. were made payable at their bankers, the *Bank of India Ltd.*

1967

July 2 Drew on P Simpson Bill No 75 at one month after date for Rs 430 allowing them discount Rs 20, payable at Parr's Bank

„ 4 Received acceptance from Gulab & Sons for Rs 500 at 2 months' date payable at Lloyds Bank No 76

„ 6 Accepted S Sen & Co's draft of the 2nd instant at 2 months' date for Rs 600 in full settlement of account, in favour of Haridas & Co Bill No 121

„ 3 Bill Receivable No 75 was discounted for Rs 420

„ 5 Discounted Gulab & Son's acceptance with our bankers receiving Rs 480

„ 7 Gave J Jones our acceptance at one month's date for Rs 500 in favour of Vinayek Bros No 122

„ 8 Received Gupta & Co's acceptance of our draft at three months' date for Rs 2 075 in full settlement of their account, payable at the Bank of India No 77

„ 10 Mohini Bros forwarded us A Brown's acceptance to them for Rs 1,225 payable at the Union Bank The Bill was accepted on 15th June and drawn at 2 months' date No 78

„ 15 Received K Ayengar's draft on us of the 13th instant at 2 months' date in favour of Red & Co for Rs 1,700, discount allowed Rs 50 Returned same duly accepted No 123

16 Returned duly accepted Das Bros' draft on us for Rs 970 in full settlement of their account at 2 months' date in favour of Black & Co No 124

„ 19 Sorab & Co forward us their draft dated 17th instant for Rs 1,800 in favour of White Bros at 3 months' date for our acceptance Returned same accepted No 125

„ 20 Received from R Babu Rao acceptance of our two drafts payable at the Central Bank of India, at 2 months' date for Rs 800 and Rs 700 respectively Nos 79 and 80

„ 21 Endorsed over R Babu Rao's acceptance for Rs 700 in favour of Jacob & Sons in full settlement of their account

„ 25 Received from A Sitaram, Robert & Co's acceptance to him for Rs 600 at one month's date payable at the Imperial Bank of India Bill drawn on 20th July No 81

Bills Nos 121, 122, 123 were duly met by our bankers Bill No. 124 is renewed by us on the 17th September by paying Das Bros Rs. 500 by cheque including Rs 30 for interest and accepting their new draft on us at three months' date for the balance, Bill No 126 Bills Nos 78, 79 and 80 are dishonoured on due dates Bill No 81 is collected by us on due date

Write out the transactions upto 30th September 1967.

A. CASH BOOK

Date	—	L.F.	Discount	Bank	Date	—	L.F.	Discount	Bank
1967			Rs	Rs	1967			Rs	Rs.
July 1	To Balance b/d			4,320	Aug 10	By Bills Payable Account—met B/P No 122			500
„ 3	„ Bills Receivable Account—Discounted B/R No 75		10	420	Sept. 5	„ Bills Payable Account—met B/P No 121			600
„ 5	„ Bills Receivable Account—Discounted B/R No 76		20	480	„ 16	„ Bills Payable Account—met B/P No 123			1,700
Aug 23	„ Bills Receivable Account—Realised B/R No 81			600	„ 17	„ Das Brothers			500
					„ 30	„ Balance c/d			2,520
	Rs		30	5,820				Rs	5,820
Oct. 1	To Balance b/d			2,520					

JOURNAL ENTRIES

Date	Particulars	L.F.	Rs.	Rs.
1967 July 21	Jacob & Sons .. .. .. Dr.		727	
	To Bills Receivable			700
	" Discount			27
	(Being the Amount of our Bill Receivable No. 80 transferred to Jacob & Sons in full settlement.)			
Aug. 18	Mohini Brothers .. .. .. Dr.		1,225	
	To Bills Receivable Account			1,225
	(Being the entry for dishonour of Bill Receivable No. 78.)			
Sept. 17	Bills Payable Account .. .. .. Dr.		970	
	Interest Account .. .. .. "		30	
	To Das Brothers			1,000
	(Being the reverse of the original entry and the amount of interest payable to Das Brothers on renewal of our Bill Payable No. 124.)			
" 23	R. Babu Rao .. .. .. Dr.		800	
	To Bills Receivable Account			800
	(Being the entry for dishonour of Bill No. 79 by R. Babu Rao.)			
" "	R. Babu Rao .. .. .. Dr.		700	
	To Jacob & Sons			700
	(Being the entry for the dishonour of Bill No. 80 by the former.)			

BILLS RECEIVABLE ACCOUNT

Date	Particulars	Rs.	Date	Particulars	Rs.
1967 July 31	To Sundries—monthly total as per Bills Receivable Book ..	6,330	1967 July 3	By Bank ..	420
				" Discount ..	10
			" 5	" Bank ..	480
				" Discount ..	20
			" 21	" Jacob & Sons—endorsement ..	700
			Aug. 18	" Mohini Bros.—Dishonour ..	1,225
			" 23	" Bank ..	600
			Sept. 23	" R. Babu Rao—Dishonour ..	800
			" 30	" Balance c/d. ..	2,075
	Rs.	6,330		Rs.	6,330
Oct. 1	To Balance b/d. ..	2,075			

BILLS PAYABLE ACCOUNT

Date	Particulars	Rs.	Date	Particulars	Rs.
1967 Aug. 10	To Bank ..	500	1967 July 31	By Sundries—monthly total as per Bills Payable Book ..	5,570
Sept. 5	" " ..	600	Sept. 17	" Das Bros. ..	500
" 16	" " ..	1,700			
" 17	" Das Bros.—Renewed ..	970			
" 30	" Balance c/d. ..	2,300			
	Rs.	6,070		Rs.	6,070
			Oct. 1	By Balance b/d. ..	2,300

BILLS RECEIVABLE BOOK

No of Bill	Date Received	From whom Received	L.F.	Discount	Amount of Bill	Drawer	Acceptor	Where Payable	Date of Bill	Terms	Due Date	How Disposed off
	1967			Rs	Rs				1967		1967	
75	July 2	P. Simpson		20	430	Self	P Simpson	Parr's Bank	July 2	1 month	Aug 5	Discounted on July 3
76	" 4	Gulab & Sons			500	"	Gulab & Sons	Lloyd's Bank	" 4	2 months	Sept 7	Discounted on July 5.
77	" 8	Gupta & Co		25	2 075	"	Gupta & Co	Bank of India	" 8	3 months	Oct 11	
78	" 10	Mohini Bros.			1,225	Mohini Bros	A Brown	Union Bank	June 15	2 months	Aug 18	Dishonoured on the due date.
79	" 20	R Babu Rao			800	Self	R Babu Rao	Central Bank of India	July 20	2 months	Sept 23	do
80	" 20	R Babu Rao			700	"	R Babu Rao	Do.	" 20	2 months	Sept 23	Endorsed in favour of Jacob & Sons on 21st July 1958, subsequently dishonoured
81	" 25	A Sitaram			600	A Sitaram	Roberts & Co	Imperial Bank of India	" 20	1 month	Aug 23	Realised on maturity.
			Rs	45	6,330							
					L.1							

BILLS PAYABLE BOOK

No. of Bill	Date Accepted	To whom given	L.F.	Discount	Amount of Bill	Drawer	To whom Payable	Where Payable	Date of Bill	Term	Due Date	Remarks
	1967			Rs.	Rs.				1967		1967	
121	July 6	S. Sen & Co.		20	600	S. Sen & Co.	Haridas & Co.	Bank of India	July 2	2 months	Sept. 5	Met at maturity.
122	„ 7	J. Jones			500	J. Jones	Vinayak Bros.	„	„ 7	1 month	Aug. 10	do.
123	„ 15	K. Ayengar		50	1,700	K. Ayengar	Red & Co.	„	„ 13	2 months	Sept. 16	do.
124	„ 16	Das Bros.		15	970	Das Bros.	Black & Co.	„	„ 16	2 months	„ 19	Renewed on 17th September
125	„ 19	Sorab & Co.			1,800	Sorab & Co.	White & Co.	„	„ 17	3 months	Oct. 20	
			Rs.	85	5,570							
126	Sept. 17	Das Bros.			L.F. 500	Das Bros.	Das Bros.	„	Sept. 17	3 months	Dec. 20	

. CHAPTER V

PARTNERSHIP ACCOUNTS

Q 200. *What is a Partnership, and what are its main essentials?*

A. Partnership is defined as "the relation which subsists between two or more persons carrying on business in common with a view of profit".

From the above definition it is clear that the following are the three essentials which must exist in order to constitute a partnership, viz

1 That there must be a business, and for this purpose, the word 'business" would include any trade, profession or occupation,

2 That it must be carried on by some or all of the partners for the benefit of all of them, and

3 That it must be carried on for the purpose of earning profits which would be divided amongst the partners

Q. 201. *Should a Partnership Agreement be necessarily entered into in writing, and can such an agreement, if once made, be varied by the partners?*

A. The contract of partnership need not necessarily be in writing and in any particular form, but may be made orally or even inferred from the conduct of the parties It is, however, extremely desirable that there should be a written agreement signed by all the partners, clearly specifying the terms and conditions on which the partners agree among themselves to carry on the business In practice, the mutual rights and obligations of the partners are expressed in an agreement in writing called a Partnership Deed, but any such agreement can be modified at any time, to any extent, by the mutual consent of all of them Such modifications even need not necessarily be in writing, but may be implied from facts and circumstances The important point, however, is that any variation of the rights or duties as originally defined in the deed must be by the consent of all the partners

Q. 202. *Mention instances where a person even receiving a share out of the profits of a business is not a partner*

A. Sharing of profits, although an important element in every partnership, is by no means a conclusive evidence to make the person in receipt of such a share a partner in the business In determining whether a person is or is not a partner in a firm, regard must be had to the real relation between the parties, as shown by all relevant facts taken together

1 The sharing of profits or of gross returns arising from property by persons holding a joint or common interest in that property does not of itself make such persons partners

2. The receipt by a person of a debt or other liquidated amount by instalments or otherwise out of the accruing profits of a business does not of itself make him a partner in the business or liable as such.

3. A contract for the remuneration of a servant or agent of a person engaged in a business by a share of the profits of the business does not of itself make the servant or agent a partner in the business or liable as such.

4. A person being the widow or child of a deceased partner, and receiving by way of annuity a portion of the profits made in the business in which the deceased person was a partner, is not by reason only of such receipt a partner in the business or liable as such.

5. The advance of money by way of loan to a person engaged or about to engage in any business on a contract with that person that the lender shall receive a rate of interest varying with the profits, or shall receive a share of the profits arising from carrying on the business, does not of itself make the lender a partner with the person or persons carrying on the business or liable as such. Provided that the contract is in writing and signed by or on behalf of all the parties thereto.

6. A person receiving by way of annuity or otherwise a portion of the profits of a business, in consideration of the sale by him of the goodwill of the business is not by reason only of such receipt a partner in the business or liable as such.

Q. 203. *To what extent can a partner bind the firm and his other partners by his acts?*

A. Ordinarily, partnerships are assumed to be based on the mutual trust and confidence of each partner in the skill, knowledge and integrity of every other partner. As between the partners and the outside world, each partner is the unlimited agent of every other partner in all matters connected with the partnership business and which are not beyond the scope of the partnership, irrespective of any private arrangements that may exist among the partners. It must be clearly understood, however, that a partner's implied authority to bind his firm is limited to acts which are necessary for carrying on the partnership business and which are not in any way outside the scope of the partnership. An admission or representation made by any partner concerning the partnership affairs and in the ordinary course of the business, is evidence against the firm. Notice to any partner who usually acts in the partnership business of any matter relating to partnership affairs operates as notice to the firm, except in the case of a fraud on the firm, committed by or with the consent of that partner.

Implied authority of a Partner.—In the absence of any usage in the kind of business in question or the custom of the firm, it may be assumed that every partner in a trading business has an implied authority to do the following acts on behalf of his firm:—

1 Buy goods on account of the firm.
2 Sell any of the partnership goods
3 Receive payments of debts due to the firm and give valid receipts
4 Draw cheques, and draw, accept and endorse Bills of Exchange and Promissory Notes in the name of the firm
5 Borrow moneys on the credit of the firm with or without pledging the firm's goods
6 Engage servants for the partnership business

Q 204. To what extent is a partner liable for the debts of his firm?

A. **Liability of Partners.**—Every partner in a firm is liable jointly with the other partners for all the debts of the firm incurred during the time that he is a partner Thus, a partner who enters into a contract on behalf of his firm is not liable on that contract except as one of the firm, in other words, the contract is not binding on him separately, but only on him and his co-partners jointly But a partner may render himself separately liable by holding himself *out as the only member of the firm*, or by *so framing of the* contract as to bind himself separately from his other partners as well as jointly with them. In the absence of any such special circumstance, a contract *which is binding on the firm is binding on all the partners jointly and* not severally on any of them. Where there is an agreement, the respective rights and duties of the partners will be decided in accordance therewith, but if there are any matters which are not provided for in such agreement, the same will have to be dealt with in accordance with the partnership law

Liability of an Incoming Partner.—A person who is admitted as a partner into an existing firm does not thereby become liable to the creditors of the firm for anything done before he became a partner But if a person *on being admitted into partnership takes over the debts already incurred by* an agreement with the existing creditors of the firm, he will be held liable jointly with his co-partner for such debts

Liability of a Retiring Partner.—A partner who retires from a firm does not thereby cease to be liable for partnership debts or obligations incurred before his retirement, but a retiring partner may be discharged from any existing liabilities by an agreement to that effect between himself and the members of the firm as newly constituted and the creditors, and this agreement *may be either express or inferred from the course of dealing between* the creditors and the firm as newly constituted. In any case, the existing creditors of the firm must be a party to any agreement relieving the retiring *partner from* debts and obligations incurred during the time that he was a partner.

Q. 205. *What is Partnership Property and how should it be dealt with? In the absence of any agreement, how are the rights and interest of the partners in the partnership property determined?*

A. All property and rights and interests in property originally brought into the partnership stock or acquired on account of the firm in the course of the partnership business, are partnership property and must be held and applied by the partners exclusively for the purposes of the partnership and in accordance with the partnership agreement: and unless the contrary intention appears, property bought with money belonging to the firm is deemed to have been bought on account of the firm.

The contributions of capital may be made by the partners in any proportions and in any manner as may be mutually agreed upon, i.e. in money, in goods, in the premises to be used, in skill and attendance or even in personal influence; and the same may be declared as divisible on dissolution in any proportions they agree upon.

Rules in absence of Agreement.—In the absence of any express or implied agreement between the partners relating to their interests in the partnership property, the following rules hold good:—

1. All partners are entitled to share equally in the capital and profits of the business and must contribute equally towards losses whether of Capital or otherwise sustained by the firm.

2. A partner is not entitled, before the ascertainment of profits, to interest on the capital subscribed by him.

3. No partner can claim any remuneration for acting in the partnership business.

4. A partner making, for the purpose of the partnership, any actual payment or advance beyond the amount of capital which he has agreed to subscribe, is entitled to interest at the rate of 6% per annum from the date of such payment or advance. (In England, the rate of interest for this purpose is 5%.)

Q. 206. *In the absence of any agreement between the partners, what is the relation of partners to one another?*

A. Subject to any agreement between the partners, every partner has a right to take part in the management of the partnership business.

Any difference arising as to ordinary matters connected with the partnership business may be decided by a majority of the partners, but no change may be made in the nature of the partnership business or in the constitution of the firm without the consent of all the partners.

No majority of partners can expel any partner, unless a power to do so has been conferred by express agreement between the partners.

Every partner must account to the firm for any benefit derived by him without the consent of the other partners from any transaction concerning

the partnership, or from any use made by him of the partnership property, name or business connection. In other words, a partner should not obtain a personal advantage at the expense of the firm. If a partner, without the consent of the other partners, carries on any business of the same nature as and competing with that of the firm, he must account for and pay over to the firm all profits made by him in that business

In the absence of any agreement to the contrary, the firm must indemnify every partner in respect of payments made and personal liabilities incurred by him —

(a) In the ordinary and proper conduct of the business of the firm, or

(b) In or about anything necessarily done for the preservation of the business or property of the firm

Subject to any agreement between the partners, no person may be introduced as a partner without the consent of all the existing partners

Q. 207. *Mention the principal clauses which should be embodied in a Partnership Deed*

A. Important Clauses in Partnership Agreement.—Among other things, a Partnership Agreement must necessarily contain provisions upon the following matters —

1 The name of the firm and the nature of the partnership business

2 The commencement and duration of the partnership

3 The amount to be contributed by each partner as his capital

4 The extent to which each partner is to be allowed to withdraw sums in anticipation of profits

5 How the profits or losses are to be divided

6 If any interest is to be allowed on the capital of each partner and the rate per cent

7 The rate of interest, if any, to be charged on the drawings

8 If any partner is to be allowed any salary

9 How further capital, if necessary, is to be introduced

10 Provision in regard to amounts to be brought in by any of the partners by way of loans and the interest thereon.

11 For all partnership transactions to be duly recorded in a proper set of books to be kept at the place of business and such books to be open to inspection of every partner or his representative

12 That the accounts of the firm be prepared annually and after being duly audited by professional auditors, the firm's Balance Sheet be signed by all the partners as evidence of their acceptance

13 The basis on which to determine the amount payable to a retiring partner or the representative of a deceased partner in respect of capital and accrued profits since the last accounts

14. The basis of valuation of the goodwill of the firm, if any, as also the other assets, for the above purpose.

15. Clauses as to the rights and duties of each partner.

16. Clauses in regard to restrictions, if any, to be placed on the authority of any one or more of the partners to bind the firm in matters relating to the partnership business.

17. An arbitration clause, for matters, in dispute to be determined by submission to an arbitrator.

Q. 208. *What are the rules as to the Capital to be brought in and the Drawings by the Partners?*

A. **Capital of Partners.**—There is no implied obligation in law that partners must bring capital in equal or in any stated proportions, and the matter rests absolutely with the partners to decide. It is even not necessary that every partner must contribute something towards the firm's capital, and instances may be found where a partner is admitted into a firm without his introducing anything by way of capital. The capital of a partnership firm as originally determined by agreement may be increased from time to time by further contributions and by undrawn profits, or may be decreased by withdrawals and losses, or the proportions of capital as originally determined may be altered, by the mutual consent of all the partners. Such consent need not be expressed in writing but may be tacit and proved from the conduct of the parties. Further, the capital to be contributed by each partner need not necessarily consist of cash payment, but may be satisfied by the introduction of assets other than cash, such as Stock-in-trade, Fixtures, Plant, etc.

Drawings of Partners.—The Partnership Deed generally includes a clause allowing each partner to withdraw a certain amount at each periodical interval in anticipation of his share of profits. Such withdrawals are debited to a separate Drawings Account of each partner. Whether such drawings are chargeable with interest, is again a matter of arrangement between the partners. In many cases, whereas the capitals bear interest, the drawings are not chargeable with such interest and the student would do well never to calculate interest on drawings while working out a problem unless he has been asked specially to do so.

Q. 209. *How should Partners share Profits and Losses?*

A. **Sharing of Profits and Losses.**—The proportions in which profits or losses arising from the business are to be divided will depend upon the agreement between the partners. In the absence of any such agreement, even where the capitals are in unequal amounts, the partners will be deemed by law to be equal sharers in profits or losses on the ground that the Court cannot be expected to enter into questions of partners' merits. It may be that a partner contributing a very small portion towards the firm's capital may bring into the business special skill which cannot be measured in terms

of money, and by virtue of this attribute he stands to share as much out of the profits as another partner who has contributed a much larger sum in shape of capital, but who is not possessed of the requisite skill Again, one partner may be taking an active part in the conduct of the business, and the others may not be It is evidently, therefore, left for the partners themselves to decide as to what would be the most equitable mode of sharing profits or losses Where the partnership deed provides for the profits being shared in a particular manner and there is no mention of how the losses should be borne, the assumption is that these should be borne in the same proportions Further, it is quite legal and competent for the partners to arrange for the profits to be divided in certain proportions and the losses to be borne in quite other proportions It is equally competent for the partners to agree to exempt one or more of them from bearing any losses The share of profit applicable to each partner would be debited to the Profit and Loss Account and credited to his Capital Account If there is a loss, the same would be adjusted by debiting each Partner's Capital Account with his respective share and crediting the Profit and Loss Account

Q 210 *Discuss fully the question of Interest on the Capital and the Drawings of the Partners*

A. **Interest on Capital**—Where the capitals are contributed in certain proportions and the sharing of profits or losses is not in proportion to capitals, interest on the capital of each partner is generally calculated at an agreed rate per cent, and is considered as a charge on the Profit and Loss Account, before the ascertainment of net profits It must be remembered, however, that no such interest on his capital can be claimed by any partner as a matter of right, in the absence of an agreement to that effect Where the capitals are unequal but the profits are shared equally, the partner with larger amount of capital would otherwise be at a disadvantage and the one with smaller capital would benefit at the expense of his co-partners, again, where the capitals are equal but the profits are shared in unequal proportions the partner taking the largest share of profits would otherwise get an undue benefit over the others and the adjustment in regard to interest on capital will tend to lessen the inequality It is thus clear that the allowance of interest to each partner on his respective capital will tend to balance the accounts equitably between the partners *inter se* or, in any case, serve to compensate the partner with larger capital contribution Even where the profits are shared in the same proportions as the capitals, it is usual and desirable that interest on capital be brought into account in order to enable the partners to see what profit they realised from the business over and above the interest they would have earned if the same capital were invested in gilt-edged securities. Interest on Capital is debited to Profit and Loss Account and credited to Capital Account of the partner concerned. Where, however, the capitals are agreed to be fixed, such interest will be credited to the current account of each partner

Interest on Drawings.—Where the partnership agreement provides for the allowance of interest at a certain rate per cent, on the capitals of the partners, it does not necessarily follow that such interest should also be calculated on the drawings. If it is desired that interest should also be charged on the drawings, there should be a distinct mention to that effect in the agreement. Where the capitals and the sharing of profits are equal and the drawings are in unequal sums, interest is usually charged on the drawings by mutual arrangement in order that the accounts of the partners may be equitably adjusted *inter se.* As has been said above, the question of interest on capital and drawings is purely a matter of agreement between the partners, and the partnership accounts will have to be prepared with due regard to the terms and conditions of such an agreement, if there exists any.

Q. 211. *What is the rule in regard to Salaries to Partners and how should such Salaries be recorded?*

A. **Partners' Salaries.**—It frequently happens that one of the partners may be devoting his entire time to the business whereas the others may not, and under such a circumstance, it is usual to allow the former an agreed salary before the ascertainment of the net profit. The practice of allowing salary usually obtains in a firm where there are junior partners with hardly any capital contribution who take a very small share of the profits and yet who devote the whole of their time and energy to the business. When such salaries are drawn out in cash from month to month, they should be charged to Partners' Salaries Account. Where, however, lump sums are withdrawn at irregular intervals on account of salaries, these would be debited to the Drawings Account of the partner concerned and an adjustment would have to be made at the end of each financial period, debiting Partners' Salaries Account and crediting the Capital Account of the partner with the annual amount of salary due to him.

Q. 212. *What is the position of a Partner who has advanced Loan to the firm and how should such Loan be recorded?*

A. **Loan by a Partner.**—Any advances by a partner by way of loan will carry 6 per cent interest by implication (in England 5 per cent), unless otherwise agreed upon: and this is irrespective of the fact whether the capitals bear any interest or not. But the partners by mutual consent may agree to allow a higher or lower rate of interest on such loan, in which case such agreement will hold good. A partner can claim a repayment of his loan, in the absence of any agreement to the contrary, although he cannot ask for a refund of his capital. In case of a dissolution, such loan by a partner would rank to be repaid in priority to the refund of capitals, but after the claims of all outside creditors are satisfied in full. Loan by a partner must be credited to a separate account from his capital account and must be distinctly stated in the Balance Sheet.

Q. 213. *A, B and C are partners with Capitals of Rs 40,000, Rs 15,000 and Rs 5,000 respectively and share profits and losses equally The net profit for the year 1967, before charging interest on Capital amounted to Rs 27,000 Show the amount of each partner's gain from the firm, (a) if no interest is calculated on the Capital, and (b) where 5% interest on Capital is brought into account, before adjustment of profits*

A. (a) The profits, prior to calculation of interest on Capital, will be divided as under —

A 1/3rd of Rs 27,000=Rs 9,000
B 1/3rd of Rs 27,000= „ 9,000
C 1/3rd of Rs 27,000= „ 9,000

(b) Where Interest on Capital is calculated prior to division of profits, the Profits and Loss Account will appear thus —

PROFIT AND LOSS ACCOUNT

	Rs	Rs		Rs
To Interest on —			By Balance b/fd	27,000
A's Capital Account	2,000			
B's „ „	750			
C's „ „	250			
		3,000		
„ Net Profits transferred to Partners' Capital Accounts —				
A ⅓rd	8,000			
B ⅓rd	8,000			
C ⅓rd	8,000			
		24,000		
	Rs	27,000	Rs	27,000

Therefore, after calculation of Interest on Capital, the profits earned by each partner will be as follows —

Interest and Profits.

A. Rs 2,000 „ Rs 8,000=Rs 10,000
B „ 750 „ „ 8,000= „ 8,750
C „ 250 „ „ 8,000= „ 8,250

Note:—From the above, it is clear that where the Capitals are unequal and the profits are shared equally, it is desirable to calculate a reasonable rate of interest on the Capital of each partner before the ascertainment of distributable profits, in order that the partners with larger Capitals may be duly compensated

Q. 214. *A, B and C are partners with Capitals of Rs. 20,000 each and share profits in proportions of ½, ⅜ths and ⅛th. The net profit for the year 1967, before calculating Interest on Capital amounted to Rs. 27,000. Show the amount of each partner's gain from the firm, (a) if Interest on Capital is ignored and (b) if 5% Interest on Capital is to be calculated before adjustment of profits.*

A. (a) The profits, prior to calculation of Interest on Capital, will be divided as under:—

A. 1/2 of Rs. 27,000=Rs. 13,500.
B. 3/8ths of „ 27,000= „ 10,125.
C. 1/8th of „ 27,000= „ 3,375.

(b) Where Interest on Capital is calculated before division of profits, the Profit and Loss Account will appear thus:—

PROFIT AND LOSS ACCOUNT

		Rs.		Rs.
To Interest on :—	Rs.		By Balance b/fd. ..	27,000
A's Capital ..	1,000			
B's „ ..	1,000			
C's „ ..	1,000			
		3,000		
„ Net Profit transferred to Partners' Capital Accounts :—				
A ½ ..	12,000			
B ⅜ths ..	9,000			
C ⅛th ..	3,000			
		24,000		
	Rs.	27,000	Rs.	27,000

Therefore, after calculation of Interest on Capital, the profits earned by each partner will be as follows:—

Interest and Profits.

A. Rs. 1,000 „ Rs. 12,000=Rs. 13,000.
B. „ 1,000 „ „ 9,000= „ 10,000.
C. „ 1,000 „ „ 3,000= „ 4,000.

Note:—From the above, it will be seen that where the Capitals contributed by the partners are equal but the profits are shared in unequal proportions, it is desirable to bring into account Interest on Capital at a certain rate per cent prior to division of profits, in order that the partner taking the least share of profits may at least be compensated equally along with the other partners by way of interest on his Capital, so that the inequality in the division of profits may be least felt.

Q 215 P having commenced business on 1st January 1966 with a Capital of Rs 10,000 admits Q into partnership with a Capital of Rs 8,000 on 1st May 1966, P and Q then take over R as a partner on 1st August 1966 with a Capital of Rs 5,000 On 1st November P, Q and R contribute by way of further Capital Rs 1,000, Rs 2,000 and Rs 3,000 respectively The profits for the year ended 31st December 1966 amounted to Rs 6,630 and are agreed to be shared in proportions of Capitals Show the division of profits at the end of the year

A.

P 10 000×12=1,20 000	Q 8 000×8=64 000	R 5 000×5=25 000
1 000× 2= 2 000	2 000×2= 4 000	3 000×2= 6 000
Rs 1,22 000	Rs 68 000	Rs 31 000

The proportions are 122 68 31

P takes Rs 3 660 Q Rs 2 040 and R Rs 930 of the net profits

Q 216 The Capital Accounts of X, Y and Z stood at Rs 20,000, Rs 15,000 and Rs 10,000 respectively after the necessary adjustments in respect of the Drawings and the Net Profits for the year ended 1st December 1966 It was subsequently ascertained that 5% terest on Capital and on the Drawings of each partner had been mitted The drawings of the partners had been X Rs 2,000, Y Rs ,500 and Z Rs 1,200 and the interest on these amounted to Rs 40, Rs 30 and Rs 15 respectively The profits for the year as already adjusted amounted to Rs 10,000 The partners share profits in proportions of 2/5ths, 2/5ths and 1/5th Give the adjusted Capital Accounts of the partners together with Journal Entries necessary for such adjustments

A. The opening Capitals of partners, for the purpose of calculating interest thereon, is ascertained as under —

	X	Y	Z
	Rs	Rs	Rs
Capitals at the end of the year	20 000	15 000	10 000
Add Drawings during the year	2 000	1,500	1,200
	22 000	16,500	11,200
Less Profit	4 000	4 000	2 000
Capitals at the beginning of the year	18 000	12,500	9,200

JOURNAL ENTRIES

		L.F.	Rs.	Rs.
Profit and Loss Adjustment Account .. .. Dr.			1,985	
To X's Capital Account				900
„ Y's „ „				625
„ Z's „ „				460
(Being the adjusting entry for interest on Partners' Capitals not taken into account in the Profit and Loss Account.)				
X's Capital Account .. .. .. Dr.			40	
Y's „ „ .. .. .. „			30	
Z's „ „ .. .. .. „			15	
To Profit and Loss Adjustment Account				
(Being the adjusting entry for interest on Partners' drawings not accounted for in the Profit and Loss Account)				
X's Capital Account .. .. . Dr.			760	
Y's „ „ .. .. .. „			760	
Z's „ „ .. .. .. „			380	
To Profit and Loss Adjustment Account				1
(Being the Loss on the above adjustments transferred to Partners' Capital Accounts in their profit-sharing proportions.)				

X's CAPITAL ACCOUNT

1966		Rs.	1966		F
Dec. 31	To Profit and Loss Adjustment Account—Interest on Drawings ..	40	Dec. 31	By Balance b fd. ..	20
„ „	„ Profit and Loss Adjustment Account—Loss on Adjustments—2 5ths share ..	760		„ Profit and Loss Adjustment Account—Interest on Capital ..	
„ „	„ Balance c/d. ..	20,100			
	Rs.	20,900		Rs.	20,900
			1967 Jan. 1	By Balance b d. ..	20,100

Y's CAPITAL ACCOUNT

1969		Rs.	1966		Rs.
Dec. 31	To Profit and Loss Adjustment Account—Interest on Drawings ..	30	Dec. 31	By Balance b fd. ..	15,030
„ „	„ Profit and Loss Adjustment Account—Loss on Adjustments—2 5ths share ..	760		„ Profit and Loss Adjustment Account—Interest on Capital ..	625
„ „	„ Balance c d. ..	14,835			
	Rs.	15,625		Rs.	15,625
			1967 Jan. 1	By Balance b d. ..	14,835

Z's CAPITAL ACCOUNT

1966		Rs	1966		Rs
Dec. 31	To Profit and Loss Adjustment Account—Interest on Drawings	15	Dec 31	By Balance b/fd	10,000
" "	" Profit and Loss Adjustment Account—Loss on Adjustment—1/5th share	380		" Profit and Loss Adjustment Account—Interest on Capital	460
" "	" Balance c/d	10,065			
	Rs	10 460		Rs	10,460
			1967 Jan 1	By Balance b/d	10,065

Q. 217. *Explain what you understand by Capitals being Fixed and Fluctuating quantities*

A. **Fixed and Fluctuating Capitals.**—A separate Capital Account is opened in the name of each partner and is credited with the amount of capital contributed by him on the formation of the partnership and further amounts, if any, brought in subsequently as additional capital There is also a separate Drawings Account in the name of each partner, and the account is debited with the respective partner's drawings from time to time At the end of each financial period, the debit balance on the Drawings Account representing the total withdrawals by each partner is transferred to the debit of his Capital Account and the Drawings Account is thus closed The adjustments in regard to Interest on Capital (if any allowed) and the share of profits are credited to the Capital Account of each partner On the other hand, adjustments in regard to Interest on Drawings (if any agreed upon), and the share of loss, if there be any, are made on the debit of each partner's Capital Account As a result of these adjustments, the Capital Account of each partner at the end of the year would be made up of the capital as it stood at the beginning of the year, *plus* interest and share of profits, and *less* drawings The Capital Account is then closed by balance, and will represent the partner's capital at the beginning of the new period The balances on Capital Accounts, under such a circumstance, will naturally fluctuate from year to year and this is how the partner's accounts are ordinarily dealt with, unless there is a definite provision in the Partnership Agreement that the capitals shall be maintained at fixed quantities

Where it is stated in the Partnership Deed that the partners' Capitals shall be fixed and shall be maintained at the same figures during the partnership, the Capital Account of each partner would be credited with only the actual contribution to capital No adjustment will then be made on the Capital Accounts, and the balance on each such account will remain at the same figure from year to year, representing the original capital contribution

In this case, instead of the Drawings Account, there will be a separate Current Account of each partner, and the withdrawals by each partner would be charged to this account. The adjustments at the end of each financial year in regard to Interest on Capital and Drawings (as may be arranged) and share of profit or loss will all be made on the Current Accounts of the partners. The Current Account of each partner will then be closed by balance, and will be shown quite distinct from the Capital Accounts on the Balance Sheet. A credit balance on such Current Account left after all the above adjustments would mean that the partner has not withdrawn the whole of the profits and the interest on his capital due to him and he may draw this balance any time he chooses. A debit balance, on the other hand, would signify that the partner has overdrawn his share of profits and interest to the extent of such balance and he may be required either to refund this excess withdrawal or make good this debit balance by reducing his future drawings.

Where the Capitals are agreed to be fixed quantities, the balance on the Current Account of each Partner must be shown as a separate item in the Balance Sheet. If such an account shows a debit balance, it will fall on the assets side of the Balance Sheet and, if it shows a credit balance, it will appear as a liability.

Q. 218. *A and B are partners sharing profits in proportions of 7/10ths and 3/10ths with Capitals of Rs. 15,000 and Rs. 10,000 respectively. 5% interest was agreed to be calculated on the Capital of each partner and B is to be allowed an annual salary of Rs. 2,400 which has not been withdrawn. During the year 1966 A withdrew Rs. 1,200 and B Rs. 2,000 in anticipation of profits. The profits for the year prior to calculation of Interest on Capital, but after charging B's salary, amounted to Rs. 8,000. A provision of 7½% on this amount is to be made in respect of commission to the Manager. Show the partners' accounts:—(a) Where the Capitals are fluctuating quantities, (b) where the Capitals have been agreed to be fixed quantities and (c) the account showing the allocation of profits.*

A. (a) Where the Capitals are fluctuating:—

A's CAPITAL ACCOUNT

1966		Rs.	1966		Rs.
Dec. 31	To Drawings Account—Transfer ..	1,200	Jan. 1	By Balance b/fd. ..	15,000
„ „	„ Balance c/d. ..	18,855	Dec. 31	„ Interest ..	750
			„ „	„ Profit and Loss Appropriation Account ..	4,305
	Rs.	20,055		Rs.	20,055
			1967		
			Jan. 1	By Balance b/d. ..	18,855

A's DRAWING ACCOUNT

Date	Particulars	Rs	Date	Particulars	Rs.
1966			1966		
Dec. 31	To Bank	1,200	Dec 31	By Capital Account—Transfer	1,200
	Rs.	1,200		Rs.	1,200

B's CAPITAL ACCOUNT

Date	Particulars	Rs.	Date	Particulars	Rs.
1966			1966		
Dec. 31	To Drawings Account—Transfer	2,000	Jan. 1	By Balance b/fd.	10,000
			Dec. 31	" Salary	2,400
			" "	" Interest	500
" "	" Balance c/d	12 745	" "	" Profit and Loss Appropriation Account	1,845
	Rs.	14 745		Rs.	14 745
			1967		
			Jan. 1	By Balance b d	12,745

B's DRAWING ACCOUNT

Date	Particulars	Rs.	Date	Particulars	Rs.
1966			1966		
Dec 31	To Bank	2,000	Dec. 31	By Capital Account—Transfer	2,000
	Rs.	2,000		Rs.	2 000

(b) Where the Capitals are fixed.

A's CAPITAL ACCOUNT

Date	Particulars	Rs.	Date	Particulars	Rs
1966			1966		
Dec. 31	To Balance c/d	15 000	Jan. 1	By Balance b fd.	15 000
	Rs.	15 000		Rs.	15,000
			1967		
			Jan. 1	By Balance b d	15 000

A's CURRENT ACCOUNT

Date	Particulars	Rs.	Date	Particulars	Rs.
1966			1966		
Dec. 31	To Bank	1,200	Dec. 31	By Interest on Capital	750
" "	" Balance c d.	3,855	" "	" Profit and Loss Appropriation Account	4,305
	Rs.	5,055		Rs.	5,055
			1967		
			Jan. 1	By Balance b/d	3,855

B's CAPITAL ACCOUNT

Date	Particulars	Rs.	Date	Particulars	Rs.
1966			1966		
Dec. 31	To Balance c/d.	10,000	Jan. 1	By Balance b/fd. ..	10,000
	Rs.	10,000		Rs.	10,000
			1967		
			Jan. 1	By Balance b/d.	10,000

B's CURRENT ACCOUNT

Date	Particulars	Rs.	Date	Particulars	Rs.
1966			1966		
Dec. 31	To Bank .. .	2,000	Dec. 31	By Salary	2,400
" "	" Balance c/d. .	2,745	" "	" Interest on Capital ..	500
			" "	" Profit & Loss Appropriation Account ..	1,845
	Rs.	4,745		Rs.	4,745
			1967		
			Jan. 1	By Balance b/d. ..	2,745

(c) Profit and Loss Appropriation Account.

Date	Particulars	Rs.	Rs.	Date	Particulars	Rs.
1966				1966		
Dec. 31	To 7½% Commission—Manager		600	Dec. 31	By Profit and Loss Account—Transfer ..	8,000
	" Interest :—	Rs.				
	On A's Capital	750				
	On B's Capital	500				
			1,250			
	" Net Profits transferred to Partners' Capital Accounts :—	Rs.				
	A 7/10ths	4 305				
	B 3/10ths	1,845				
			6,150			
	Rs.		8,000		Rs.	8,000

Q. 219. *From the following Trial Balance prepare the necessary final accounts for the year ended 31st December 1966.*

	Dr. Rs.	Cr. Rs.
Land and Buildings	26,000	
Sundry Debtors	40,500	
Sundry Creditors		45,000
Plant & Machinery	20,000	
Purchases—Raw Materials (*Less* Returns) ...	35,000	
Sales—(*Less* Returns)		1,23,400
Finished Stock—1st January 1966	18,000	
Raw Materials—1st January 1966	3,500	
Work-in-Process—1st January 1966 . .	2,000	
Wages	27,000	
Factory Rent and Taxes	2,500	
Salaries of Works Managers	5,600	

TRIAL BALANCE—contd

	Dr Rs	Cr Rs
Royalties	1,200	
Advertising	3 000	
Office Rent and Insurance	4 800	
Printing and Stationery	1 000	
Office Expenses	5,800	
Carriage Inwards	1 100	
Carriage Outwards	600	
Discounts Allowed	1 400	
Discounts Received		*1 100*
Bad Debts	750	
Reserve for Doubtful Debts		1 000
Factory Expenses	3 400	
Patent Rights	2 000	
X s Capital Account		16 000
Y's Capital Account		*25 000*
X s Drawings	3 600	
Y's Drawings	2 500	
X s Loan Account		*4 000*
Cash at Bank	4 000	
Cash in hand	250	
Rs	2 15 500	2 15 500

The Stock on 31st December was as follows —

Raw Materials	Rs	4 000
Work in Process	„	4 500
Finished Goods	„	28 000

The outstanding expenses were—Factory Rent Rs 250 Wages Rs 600 and Office Salaries Rs 3 000 Write off Rs 500 as Bad Debts and provide 5% Reserve for Doubtful Debts and 5% provision for Discounts Depreciate Buildings by 2% Plant by 7½% and Patents by 10 per cent X and Y are entitled to salaries of Rs 2 400 and Rs 1 800 per annum 5 per cent Interest is to be calculated on Capital The profits were shared in proportions of 3/5ths and 2/5ths

A

MANUFACTURING ACCOUNT

For the year ended 31st December 1966

	Rs.	Rs		Rs	Rs
To Stock—1 1 66 —			By Sales (*Less* Returns)		1 23 400
Finished Stock	18 000		„ Closing Stock—31st Dec 1966 —		
Work in Process	2,000			Rs	
Raw Materials	3 500		Finished Stock	28 000	
		23 500	Work in Process	4 500	
„ Purchases (*Less Returns*)		35 000	Raw Materials	4 000	
„ Carriage Inwards		1 100			36,500
„ Wages		27 600			
„ Salaries of Works Managers		5 600			
„ Factory Expenses		3 400			
„ *Factory Rent and Taxes*		2,750			
„ Royalties		1,200			
„ Gross Profit transferred to Profit and Loss Account		59 750			
	Rs	1,59,900		Rs	1,59 900

PROFIT AND LOSS ACCOUNT

For the year ended 31st December 1966

	Rs.	Rs.		Rs.
To Office Expenses ..	..	8,800	By Gross Profit transferred from Manufacturing Account ..	59,750
„ Office Rent and Insurance	..	4,800	„ Discounts	1,100
„ Advertising	..	3,000		
„ Printing and Stationery	..	1,000		
„ Carriage Outwards ..	..	600		
„ Partners' Salaries ..	..	4,200		
„ Discounts	..	3,300		
„ Bad Debts	1,250			
Add New Reserve ..	2,000			
	3,250			
Less Old Reserve ..	1,000			
		2,250		
„ Interest on Capital ..	.	2,050		
„ Depreciation :—				
Buildings 2% ..	520			
Plant 7½% ..	1,500			
Patents 10% ..	200			
		2,220		
„ Net Profit transferred to Capital Accounts :—	Rs.			
X 3/5ths ..	17,178			
Y 2/5ths ..	11,452			
		28,630		
	Rs.	60,850	Rs.	60,850

BALANCE SHEET OF X AND Y

As at 31st December 1966

Liabilities	Rs.	Rs.	*Assets*	Rs.	Rs.
Sundry Creditors :—			Cash :—		
On Open Accounts ..	45,000		In Hand .. .	250	
Outstanding for Expenses ..	3,850		At Bank .. .	4,000	
		48,850			4,250
X's Loan Account ..		4,000	Sundry Debtors ..	40,000	
X's Capital Account :—			*Less* 5% Reserve for Doubtful Debts .	2,000	
Balance on 1-1-66 ..	16,000			38,000	
Rs.			*Less* 5% Reserve for Discounts .	1,900	
Add Salary .. 2,400					36,100
„ Interest .. 800			Stock :—		
„ Profit .. 17,178			Finished Goods ..	28,000	
	20,378		Work-in-Process ..	4,500	
	36,378		Raw Materials ..	4,000	
Less Drawings ..	3,600				36,500
		32,778	Patents	2,000	
Y's Capital Account :—			*Less* 10% Depreciation ..	200	
Balance on 1-1-66 ..	25,000				1,800
Rs.			Plant and Machinery .	20,000	
Add Salary .. 1,800			*Less* 7½% Depreciation ..	1,500	
„ Interest .. 1,250					18,500
„ Profit .. 11,452			Land and Buildings ..	26,000	
	14,502		*Less* 2% Depreciation .	520	
	39,502				25,480
Less Drawings ..	2,500				
		37,002			
	Rs.	1,22,630		Rs.	1,22,630

Q. 220. *What is Goodwill? Explain fully why a new-comer should pay for Goodwill on being admitted into partnership How should Goodwill received from a new partner be dealt with in the firm's books?*

A. Goodwill on admission of a new partner—When a sole trader who has been carrying on a successful business for some time, or an existing partnership firm admits a new partner either for introduction of additional capital or influence and the consequent extension of business, or for the purpose of bringing exceptional skill or fresh energy into the business, the new-comer is required to pay some premium to compensate the existing owner or owners of the business for the surrender of a part of the profits which he or they had been hitherto enjoying in full Such compensation or "premium" paid by an incoming partner on taking a share in an established firm is called "Goodwill" and is quite distinct from any amount that he may have agreed to bring in as capital Goodwill may thus be looked upon as a compensation paid by a new-comer in an established business to the existing proprietors thereof for their past efforts and the risk of capital they underwent to bring the business in its present stage of reputation and profit-earning capacity and in return for their agreeing to forego a share of future profits for his benefit *It must clearly be understood, however, that goodwill only attaches itself to a business which has been yielding super-profits (i e more than average profits returned by other businesses in the same line of trade) in the past and where there is a reasonable likelihood of equally profitable conditions being maintained in the future* In fact, it is a payment made by the new-comer in the hope and the chance that the benefit arising from the reputation and connections already formed will continue in the future and that whereas he would be taking a share in the profits from a ready-made business for which the old proprietors laboured in the past, he would save himself the risk of capital and the trouble and anxiety he would have had to undergo if he were to start a new business on his own *Goodwill is always a partnership property and it goes with the business Evidently, therefore, the sum received on account of goodwill from a new-comer* would belong to the existing partners in their profit-sharing proportions and it would be credited to their respective Capital Accounts Whether the amount received by way of goodwill should be withdrawn by the old partners or whether the same be retained in the business as additional working capital is a matter of agreement between the existing proprietors and the new-comer It is important to note that once a new partner enters a firm, he acquires by virtue of his position two rights (a) the right to share in the assets of the partnership, and (b) *the right to participate in the division of the profits* Thus, *once a person is admitted into partnership*, he becomes entitled to share in all profits and gains arising from the date of his entry irrespective of whether such profits accrue from the trade or from an amount realised on the sale of an asset in excess of its book value or from the sale of

an asset which does not so far appear in the books, unless such new-comer is precluded from taking a share arising from any particular source by express agreement. Thus, if after the admission of a partner, the goodwill of the firm is realised, the new-comer along with the other partners will be entitled to claim his share thereof, unless it can be shown that under an express arrangement he was not to share in such profits; and, it will be no answer for this purpose to say that he paid nothing for his share of goodwill at the time he entered the partnership. If it is desired that he should have no interest in the firm's goodwill, it is perfectly competent for all the partners to make an agreement upon the admission of a partner that the latter should have no interest in the firm's goodwill.

Q. 221. *Mention the different methods of dealing with Goodwill on admission of a new partner.*

A. The method of treating Goodwill in the books of accounts at the time of admission of a new partner varies considerably.

(1) Occasionally, it is not brought into the partnership books at all, but is paid by separate cheques to the old partners by the new-comer, and is treated as a matter outside the business.

(2) In some cases, it is recorded as received in the books of the firm, but is drawn out immediately in cash by the old partners in their profit-sharing proportions.

(3) In other cases, the amount received is entered in the firm's books and is retained in the business as additional capital, after the old partners' Capital Accounts have been duly credited with their legitimate shares.

(4) Sometimes, the Goodwill amount is not brought in cash by the new-comer, but a Goodwill Account is raised (opened) and the Capital Accounts of the old partners are credited with their respective shares.

It may be mentioned, however, that it is to the advantage of the newly admitted partner to see that the amount paid by him for Goodwill is brought into record in the firm's books. It is equally advantageous to arrange that this amount is allowed to remain in the firm in proportionate credits to the old partners' Capital Accounts so as to leave so much more working capital in the business.

Before once Goodwill is brought into record for a definite purpose, viz. for adjusting the Capital Accounts of the existing partners before the admission of a new partner, it is not necessary nor is it desirable that Goodwill Account should be allowed to remain in the firm's books. It can once more be treated as an unrecorded asset, and written back to the Capital Accounts of the partners. In so writing back the Goodwill Account, it should be debited to the Capital Accounts of all the partners including the new-comer in their new profit-sharing proportions, for it will be in these proportions that the partners will share the future profits including the profit arising from the sale of Goodwill.

Q 222 The Balance Sheet of A who had been carrying on business as a sole trader for the last several years showed as follows on 31st December 1966 —

Liabilities	Rs	*Assets*	Rs
Creditors	27 000	Cash at Bank	2,500
A s Capital	30 000	Debtors	20 000
		Bills Receivable	3 000
		Stock in trade	30 000
		Office Furniture	1,500
Rs	57 000	Rs	57 000

On 1st January 1967 he admitted B into partnership on the terms that B should take a fifth share in the future profits and that he should bring in proportionate capital It was also agreed that A s Capital Account should be raised to Rs 40 000 as he had created a Goodwill by bringing his business in a state of established reputation Show the opening Balance Sheet of the new firm on the above arrangement being carried out

A BALANCE SHEET OF THE NEW FIRM

Liabilities	Rs	*Assets*	Rs
Sundry Creditors	27 000	Cash at Bank	12,500
A s Capital Account	40 000	Debtors	20 000
B s "	10 000	Bills Receivable	3 000
		Stock in trade	30 000
		Office Furniture	1,500
		Goodwill	10 000
Rs	77 000	Rs	77 000

Note —The Goodwill of A s business which was hitherto unrecorded is now brought into record as arranged with B and A has been given full credit in respect thereof The corresponding asset under the heading of Goodwill Account now appears on the assets side of the Balance Sheet If the new firm decides to wipe off Goodwill Account from their books the same may be brought about by debiting the Capital Accounts of A and B in proportions of 4 and 1 and crediting the Goodwill Account

Q 223 *F and G with capitals of Rs 7,500 and Rs 10 000 respectively agree to admit H into partnership as from 1st June 1967, upon the terms that H should bring in Rs 8,000, of which Rs 3 000 is to be regarded as a premium, and that he is to be given a fourth share in the future profits Draft the Journal Entries assuming that H brings in the necessary amount and that the Goodwill amount after being brought into record is withdrawn by the partners entitled thereto Show also the Capital Accounts of the partners and Goodwill Account State the future profit sharing proportions of F, G and H*

A.

JOURNAL ENTRIES

	L.F.	Rs.	Rs.
Bank Account .. .. .. Dr.		8,000	
To H's Capital Account			5,000
„ Goodwill Account			3,000
(Being the receipt of Capital and Goodwill amounts from H.)			
Goodwill Account .. .. .. Dr.		3,000	
To F's Capital Account			1,500
„ G's Capital Account			1,500
(Being the allocation of Goodwill amount between the old partners.)			
F's Capital Account .. .. .. Dr.		1,500	
G's Capital Account .. .. .. „		1,500	
To Bank Account			3,000
(Being the withdrawal by the old partners of their share of Goodwill.)			

F's CAPITAL ACCOUNT

	Rs.		Rs.
To Bank ..	1,500	By Balance b/d. ..	7,500
„ Balance c/d. ..	7,500	„ Goodwill Account—Half Share ..	1,500
Rs.	9,000	Rs.	9,000
		By Balance b/d. ..	7,500

G's CAPITAL ACCOUNT

	Rs.		Rs.
To Bank ..	1,500	By Balance b/d. ..	10,000
„ Balance c/d. ..	10,000	„ Goodwill Account—Half Share ..	1,500
Rs.	11,500	Rs.	11,500
		By Balance b/d. ..	10,000

H's CAPITAL ACCOUNT

			Rs.
		By Bank ..	5,000

GOODWILL ACCOUNT

	Rs.		Rs.
To F's Capital Account—Transfer ..	1,500	By Bank ..	3,000
„ G's Capital Account—Transfer ..	1,500		
Rs.	3,000	Rs.	3,000

As H is to get one-fourth of the profits the remaining three fourths will have to be shared by the original partners in their former proportions Therefore, the new proportions will be —

F $\frac{1}{2}$ of $\frac{3}{4}$ths = $\frac{3}{8}$ths G $\frac{1}{2}$ of $\frac{3}{4}$ths = $\frac{3}{8}$ths and H $\frac{2}{8}$ths F $\frac{3}{8}$, G $\frac{3}{8}$, H $\frac{2}{8}$

Notes —(a) The amount received for goodwill has been credited to F and G in equal shares, as in the absence of any agreement to the contrary, the partners are deemed to be equal sharers in profits

(b) As the amount credited in respect of goodwill to each of the old partners on his Capital Account has been withdrawn by him as per arrangement the original capital remains the same The advantage, however, is that the fact as to the amount having been paid in as goodwill and subsequently withdrawn by the old partners is brought into record

Q 224 *A and B were sharing profits in proportions of 3/5ths and 2/5ths with capitals of Rs 20,000 and Rs 15,000 respectively They admit C into partnership on 1st January 1967, the terms being that he shall bring in Rs 20 000 as capital and pay Rs 5,000 for his share of the Goodwill the amount is to be retained in business and C is to be given 1/5th share in future profits*

(a) *Pass Journal Entries to record the amount brought in by C* (b) *Show Capital Accounts and the Goodwill Account* (c) *State what the future profit sharing proportions of A, B and C will be*

A. JOURNAL ENTRIES

		L.F	Rs.	Rs.
Bank Account	Dr		25 000	
To C's Capital Account				20 000
„ Goodwill Account				5 000
(Being the receipt of Capital and Goodwill amount from C.)				
Goodwill Account	Dr		5 000	
To A s Capital Account				3 000
„ B s Capital Account				2,000
(Being the allocation of Goodwill amount between the old partners in their profit-sharing proportions.)				

A's CAPITAL ACCOUNT

	Rs.		Rs.
To Balance c d.	23 000	By Balance	20 000
		„ Goodwill Account—3/5th share	3,000
Rs.	23 000	Rs.	23,000
		By Balance b/d	23,000

B's CAPITAL ACCOUNT

	Rs.		Rs.
To Balance c/d. .	17,000	By Balance ..	15,000
		„ Goodwill Account —2/5ths share ..	2,000
Rs.	17,000	Rs.	17,000
		By Balance b/d. ..	17,000

C's CAPITAL ACCOUNT

			Rs.
		By Bank ..	20,000

GOODWILL ACCOUNT

	Rs.		Rs.
To A's Capital Account—Transfer ..	3,000	By Bank ..	5,000
„ B's Capital Account—Transfer .	2,000		
Rs.	5,000	Rs.	5,000

As C is to get 1/5th share of the profits, the remaining 4/5ths will be shared by the original partners in their former proportions. Hence, the new proportions will be:— $1 - \frac{1}{5} = \frac{4}{5}$

A 3/5ths of 4/5ths=12/25ths. B 2/5ths of 4/5ths=8/25ths and C 5/25ths.

A $\frac{12}{25}$, B $\frac{8}{25}$, C $\frac{5}{25}$. A : B : C
12 : 8 : 5

Note:—In this case, as the amount credited in respect of goodwill to each of the old partners is not withdrawn by them, their respective capitals are increased to that extent.

Q. 225. *A and B shared profits in proportions of 3 and 2 and had Capitals of Rs. 20,000 and Rs. 15,000 respectively. They agree to admit C into partnership as from 1st January 1967, on the following terms in return for a third share in future profits—(a) That C should bring in Rs. 20,000 as Capital. (b) That, as C is unable to bring his share of Goodwill in cash, the Goodwill of the firm be valued at Rs. 15,000 and a Goodwill Account be raised in the firm's books. Set out the Journal Entries required, the Capital Accounts of the partners and the Goodwill Account. State the future profit-sharing proportions of partners.*

A

JOURNAL ENTRIES

		L.F.	Rs	Rs.
Bank Account To C s Capital Account (Being the amount brought in by C as his capital)	Dr		20 000	 20 000
Goodwill Account To A s Capital Account „ B s Capital Account (Being the Goodwill raised in the firm s books and the corresponding credit to the old partners in their profit sharing proportions)	Dr		15 000	 9 000 6 000

A s CAPITAL ACCOUNT

	Rs		Rs.
To Balance c/d	29 000	By Balance „ Goodwill Account (3/5ths share)	20 000 9 000
Rs	29 000	Rs	29 000
		By Balance b/d	29 000

B s CAPITAL ACCOUNT

	Rs		Rs
To Balance c/d	21 000	By Balance „ Goodwill Account (2/5ths share)	15 000 6 000
Rs	21 000	Rs.	21 000
		By Balance b/d	21 000

C s CAPITAL ACCOUNT

			Rs
		By Bank	20 000

GOODWILL ACCOUNT

	Rs		Rs
To A s Capital Account „ B s Capital Account	9 000 6 000	By Balance c/d	15 000
Rs	15 000	Rs	15 000
To Balance b/d	15 000		

A will get $\frac{3}{5}\times\frac{2}{3}=\frac{6}{15}$ B will get $\frac{2}{5}\times\frac{2}{3}=\frac{4}{15}$ C will get $\frac{1}{3}=\frac{5}{15}$

Note:—It will be noted in this case, that the incoming partner not having brought in his share of Goodwill in cash, it has become necessary to adjust the old partners' Capital Accounts by raising a Goodwill Account in the books of the firm and crediting the old Partners' Capital Accounts with their respective profit-sharing proportions thereof.

¶ 226. *Following up the above illustration, we will now assume that the partners decide to treat the Goodwill again as an unrecorded Asset by wiping off the Goodwill Account from their books. The entry necessary to bring this about will be to debit the Capital Account of each of the partners in his new profit-sharing proportion and credit the Goodwill Account. After this step has been taken, the Capital and Goodwill Accounts will appear as under:—*

A's CAPITAL ACCOUNT

	Rs.		Rs.
To Goodwill Account—6/15ths share ..	6,000	By Balance b/fd. ..	20,000
„ Balance c/d. ..	23,000	„ Goodwill Account—3/5ths share ..	9,000
Rs.	29,000	Rs.	29,000
		By Balance b/d. ..	23,000

B's CAPITAL ACCOUNT

	Rs.		Rs.
To Goodwill Account—4/15ths share ..	4,000	By Balance b/fd. ..	15,000
„ Balance c/d. ..	17,000	„ Goodwill Account—2/5ths share ..	6,000
Rs.	21,000	Rs.	21,000
		By Balance b/d. ..	17,000

C's CAPITAL ACCOUNT

	Rs.		Rs.
To Goodwill Account—5/15ths share ..	5,000	By Bank ...	20,000
„ Balance c/d. ..	15,000		
Rs.	20,000	Rs.	20,000
		By Balance b/d. ..	15,000

GOODWILL ACCOUNT

	Rs.		Rs.
To A's Capital Account ..	9,000	By A's Capital Account ..	6,000
„ B's Capital Account ..	6,000	„ B's Capital Account ..	4,000
		„ C's Capital Account ..	5,000
Rs.	15,000	Rs.	15,000

Note:—From the above, it will be clear that A benefits to the extent of Rs 3,000 and B to the extent of Rs 2,000 whereas C's Capital Account gets a debit of Rs 5,000 If C had brought in his 1/3rd share of Goodwill, namely, Rs 5 000 in cash, Bank Account would have been debited and the Capital Accounts of A and B would have been credited with Rs 3,000 and Rs 2,000 respectively, i.e in proportions of 3 and 2 The only difference in this case is that instead of Bank Account being debited, it is C's Capital that gets the debit as he failed to bring in his proportionate amount of Goodwill. The ultimate position of the old proprietors is thus just the same as in a case where the new-comer brings his share of Goodwill in cash .

Q 227. *When would it become necessary to revalue assets on admission of a new partner? If a re-valuation of assets is agreed upon between the old proprietors and the new-comer, how would such adjustments be made?*

A. It may be that during the continuance of the partnership business, usual percentages of depreciation may have been provided on the fixed assets before arriving at the periodical net results, and the stock-in-trade and other floating assets may have been valued on some basis as mutually agreed upon by the partners, but fluctuations in value of Investments may have been ignored or the provision in respect of Doubtful Debts or depreciation may not be adequate or that appreciation in the value of assets like land and building may not have been brought into record so far Now that an outsider is to be admitted into partnership, it becomes necessary to see that all the firm's assets are brought in at their true values on the date of such admission in order that neither the existing partners nor the new-comer may be put to any disadvantage For this purpose, the book values of the firm's assets would be scrutinised by the old partners as also the incoming partner with a view to ascertain if any re-adjustment in values is necessary Whatever adjustments are then mutually determined upon as equitable are given effect to in the books of the old firm in order that the assets may be transferred in the new firm's books at their agreed values Any such depreciation or appreciation in the book values of assets is transferred to an account called Profit and Loss Adjustment Account This account would be debited and the account of the asset concerned would be credited when the book value of any asset has to be decreased, whereas in case of increase in value of any asset, such asset account would be debited and the Profit and Loss Adjustment Account would be credited. The Profit and Loss Adjustment Account will be closed by transfer to the Capital Accounts of the old partners in their profit-sharing proportions

Q 228. *What is the effect of the old proprietors guaranteeing the values of the assets and liabilities to the new-comer?*

A. Sometimes, the assets and liabilities of the old firm may be required by the new-comer to be guaranteed by the existing partners, in order

		Rs		Rs
Creditors		62,000	Cash at Bank	5,000
Capital Accounts—	Rs.		Land and Building	25,000
A	35,000		Plant and Machinery	35,000
B	35 000		Furniture and Fixtures	1,500
		70,000	Stock	20,500
			Debtors	45,000
	Rs	1,32,000	Rs.	1 32,000

They take C into partnership on 1st January 1967, the terms being that he shall pay Rs 5,000 as his share of the Goodwill, the amount to be retained in the business and that he shall bring in Rs. 15,000 as capital for a fourth share in the future profits For the purpose of C's admission, the firm's assets were agreed to be re-valued as under —Land and Building to be taken at Rs 30,000 Plant and Fixtures to be reduced by 10% and a provision of 5% on debtors is to be made for Doubtful Debts The stock is to be taken at a value of Rs 25,000 The excess of Capital Accounts of A and B over their due proportions of the sharing of profits in the new firm is to be transferred to their respective Loan Accounts Set out the necessary Journal Entries, the Profit and Loss Adjustment Account, the opening Balance Sheet of the new firm and the Capital Accounts of the partners.

A. JOURNAL ENTRIES

		L.F.	Rs	Rs.
Profit and Loss Adjustment Account	Dr.		5,900	
To Plant and Machinery				3,500
„ Furniture and Fixtures				150
„ *Reserve for Doubtful Debts*				2,250
(Being the entry for writing down the values of assets as arranged)				
Land and Buildings Account	Dr		5,000	
Stock Account	„		4,500	
To Profit and Loss Adjustment Account				9,500
(Being the amount of appreciation in values of the above assets adjusted.)				
Profit and Loss Adjustment Account	Dr		3,600	
To A's Capital Account				2,160
„ B's Capital Account				1,440
(Being the profit on adjustments transferred to partners' Capital Accounts in their profit-sharing proportions)				
Bank Account	Dr.		20,000	
To C's Capital Account				15,000
„ Goodwill Account				5,000
(Being the amount of Capital and Goodwill brought in by C.)				
Goodwill Account	Dr.		5,000	
To A's Capital Account				3,000
„ B's Capital Account				2,000
(Being the allocation of Goodwill amount between the old partners)				

JOURNAL ENTRIES—*contd.*

		L.F.	Rs.	Rs.
A's Capital Account .. .. Dr.			13,160	
To A's Loan Account				13,160
(Being the amount of excess Capital transferred to his Loan Account as per agreement.)				
B's Capital Account .. .. Dr.			20,440	
To B's Loan Account				20,440
(Being the amount of excess Capital transferred to his Loan Account as per agreement.)				

PROFIT AND LOSS ADJUSTMENT ACCOUNT

		Rs.		Rs.
To Plant and Machinery ..		3,500	By Land and Building .	5,000
„ Furniture and Fixtures ..		150	„ Stock ..	4,500
„ Reserve for Doubtful Debts		2,250		
„ Transfer of profit to Capital Accounts:—	Rs.			
A 3/5ths ..	2,160			
B 2/5ths ..	1,440			
		3,600		
Rs.		9,500	Rs.	9,500

A's CAPITAL ACCOUNT

	Rs.		Rs.
To A's Loan Account—Transfer ..	13,160	By Balance b/fd. ..	35,000
„ Balance c/d. .	27,000	„ Profit and Loss Adjustment Account ..	2,160
		„ Goodwill—3/5ths share ..	3,000
Rs.	40,160	Rs.	40,160
		By Balance b/d. .	27,000

B's CAPITAL ACCOUNT

	Rs.		Rs.
To B's Loan Account—Transfer ..	20,440	By Balance b/fd. ..	35,000
„ Balance c/d. ..	18,000	„ Profit and Loss Adjustment Account ..	1,440
		„ Goodwill—2/5ths share ..	2,000
Rs.	38,440	Rs.	38,440
		By Balance b/d. ..	18,000

C's CAPITAL ACCOUNT

	Rs.		Rs.
To Balance c/d. ..	15,000	By Bank ..	15,000
Rs.	15,000	Rs.	15,000
		By Balance b/d. ..	15,000

BALANCE SHEET OF A B AND C

As at 1st *January* 1967

Liabilities		Rs	*Assets*		Rs
Sundry Creditors		62 000	Cash at Bank		25,000
Loan Accounts —	Rs			Rs	
A	13,160		Sundry Debtors	45 000	
B	20 440		*Less* Reserve for Doubtful		
		33,600	Debts	2,250	
Capital Accounts —	Rs				42,750
A	27,000		Stock		25,000
B	18,000		Furniture and Fixtures		1,350
C	15,000		Plant and Machinery		31,500
		60 000	Land and Buildings		30,000
	Rs	1,55 600		Rs	1,55,600

Note —The new profit sharing proportions in this case will be —

$A\ \frac{3}{5} \times \frac{3}{4} = \frac{9}{20}, \quad B\ \frac{2}{5} \times \frac{3}{4} = \frac{6}{20}, \quad C\ \frac{1}{4} = \frac{5}{20}$

Q. 232. *A and B sharing profits in proportions of three-fourths and one-fourth showed the following as their Balance Sheet on 31st December 1966 —*

		Rs		Rs
Creditors		37,500	Cash at Bank	22,500
General Reserve		4 000	Bills Receivable	3 000
Capital Accounts —	Rs		Debtors	16 000
A	30 000		Stock	20 000
B	16 000		Office Furniture	1 000
		46 000	Land and Buildings	25 000
	Rs	87 500	Rs	87,500

They admit C into partnership on 1st January 1967 on the following terms —

(1) That C pays Rs 10,000 as his Capital for a fifth share in the future profits

(2) That a Goodwill Account be raised in the books of the new firm at a value of Rs 20,000

(3) That Stock and Fxtures be reduced by 10% and a 5% Reserve for Doubtful Debts be created on Debtors

(4) That the value of Land and Buildings be appreciated by 20%

(5) That the Capital Accounts of all the partners be re-adjusted on the basis of their profit-sharing arrangements and any additional amount be temporarily credited to their Current Accounts and be immediately withdrawn by them

Set out the Journal Entries, the Profit and Loss Adjustment Account, the Capital Accounts of the partners, the Goodwill Account and the opening Balance Sheet of the new firm.

A.

JOURNAL ENTRIES

	L.F.	Rs.	Rs.
Goodwill Account .. .. Dr.		20,000	
To A's Capital Account			15,000
" B's Capital Account			5,000
(Being the Goodwill raised in the firm's books and its distribution between the old partners.)			
Profit and Loss Adjustment Account .. .. Dr.		2,900	
To Stock			2,000
" Office Furniture			100
" Reserve for Doubtful Debts			800
(Being the adjustment for writing down the values of assets.)			
Land and Buildings Account .. .. Dr.		5,000	
To Profit and Loss Adjustment Account			5,000
(Being the Adjustment of appreciation in value of Land and Buildings.)			
General Reserve Account .. .. Dr.		4,000	
To Profit and Loss Adjustment Account			4,000
(Being the transfer of Reserve to Profit and Loss Adjustment Account.)			
Profit and Loss Adjustment Account .. .. Dr.		6,100	
To A's Capital Account			4,575
" B's Capital Account			1,525
(Being the transfer of Profit arising from Adjustments to Partner's Capital Accounts in their profit-sharing proportions.)			
Bank .. .. Dr.		10,000	
To C's Capital Account			10,000
(Being the amount brought in by C as his Capital.)			
A's Capital Account .. .. Dr.		19,575	
To A's Current Account			19,575
(Being the transfer of excess of Capital over his profit-sharing proportion to his Current Account.)			
B's Capital Account .. .. Dr.		12,525	
To B's Current Account			12,525
(Being the transfer of excess of Capital over his profit-sharing proportion to his Current Account.)			
A's Current Account .. .. Dr.		19,575	
B's Current Account .. .. "		12,525	
To Bank			32,100
(Being the amount withdrawn by partners from their Current Account.)			

PROFIT AND LOSS ADJUSTMENT ACCOUNT

		Rs		Rs
To Stock		2 000	By Land and Buildings	5,000
„ Office Furniture		100	„ General Reserve	4,000
„ Reserve for Doubtful Debts		800		
„ Transfer of profit to Capital Accounts —	Rs.			
A $\frac{3}{4}$ths	4,575			
B $\frac{1}{4}$th	1,525			
		6,100		
	Rs	9,000	Rs	9,000

A s CAPITAL ACCOUNT

	Rs.		Rs.
To A's Current Account	19,575	By Balance b/fd	30,000
„ Balance c/d	30,000	„ Goodwill Account — $\frac{3}{4}$ths share	15,000
		„ Profit and Loss Adjustment Account	4,575
Rs	49,575	Rs	49,575
		By Balance b/d	30,000

B's CAPITAL ACCOUNT

	Rs		Rs.
To B's Current Account	12 525	By Balance b/fd	16,000
„ Balance c/d	10,000	„ Goodwill Account — $\frac{1}{4}$th share	5,000
		„ Profit and Loss Adjustment Account	1,525
Rs	22,525	Rs	22,525
		By Balance b/d	10,000

C s CAPITAL ACCOUNT

			Rs
		By Bank	10,000

GOODWILL ACCOUNT

	Rs		Rs
To A's Capital Account	15,000	By Balance c/d	20,000
„ B s Capital Account	5 000		
Rs.	20,000	Rs	20,000
To Balance b/d	20,000		

BALANCE SHEET OF A, B AND C

As at 1st January 1967

Liabilities		Rs.	*Assets*		Rs.
				Rs.	
Sundry Creditors		37,500	Cash at Bank		400
Capital Accounts :—	Rs.		Bills Receivable		3,000
A	30,000		Sundry Debtors	16,000	
B	10,000		*Less* Reserve for Doubtful		
C	10,000		Debts at 5%	800	
		50,000			15,200
			Stock		15,000
			Office Furniture		900
			Land and Buildings		30,000
			Goodwill		20,000
	Rs.	87,500		Rs.	87,500

A JOURNAL ENTRIES

		L F	Rs	Rs
Bank Account To Goodwill Account B s Capital Account (Being the Amount brought in by B in respect of Goodwill for additional share in profits and further capital in proportion to the new profit sharing *arrangement*)	Dr		15 000	 9 000 6 000
Goodwill Account To A s Capital Account (Being the transfer of Goodwill to A s Capital Account as a premium for his loss of 3/20ths share in the future profits as per the arrangement)	Dr		9 000	 9 000
A s Capital Account To Bank (Being the withdrawal of his Capital in excess of his profit sharing proportion)	*Dr*		*15 000*	 15 000

A s CAPITAL ACCOUNT

	Rs		Rs
To Bank	15 000	By Balance b/fd	30 000
„ Balance c/d	24 000	„ Goodwill Account	9 000
Rs	39 000	Rs.	39 000
		By Balance b/d	24 000

B s CAPITAL ACCOUNT

	Rs		Rs
To Balance c/d	16 000	By Balance b/fd	10 000
		Bank	6 000
Rs	16,000	Rs	16 000
		By Balance b/d	16 000

Notes —The value of Goodwill will be ascertained as under—

		Rs
Profits for 1964		25,000
, „ 1965		30,000
, „ 1966		35 000
	3)	90 000
		30 000×2=60,000

The additional share of B is ascertained as under —

$\frac{2}{5} - \frac{1}{4} = \frac{3}{20}$, $\frac{3}{20} \times 60\,000 =$ Rs 9,000 to be brought in by B for Goodwill

The adjustment of B's Capital:—

$\frac{1}{4}$th share : $\frac{2}{5}$ths share : : Rs. 10,000 Capital = Rs. 16,000 Capital.

B has to bring Rs. 6,000 as additional Capital.

Q. 234. *How is the share of a retiring or deceased partner ascertained?*

A. On the retirement or death of a partner, his share of Goodwill will have to be valued in accordance with the terms of the partnership deed, and in the absence of such a provision in the agreement, the partners will have to come to a mutual understanding as to the amount to be credited to the outgoing partner in respect of his share of Goodwill. The retiring partner will then be paid out his Capital, the share of Goodwill he is entitled to and the share of profits due to him that may have accrued since the last Balance Sheet to the date of his retirement. In case of a deceased partner, the amount ascertained as due and payable to his estate, will be handed over to his legal representatives. For the purpose of ascertaining the fair amount due to the outgoing partner in respect of his share of the firm's assets, it sometimes becomes necessary to adjust the book values of the assets in order to bring them on a line with their then true values. The necessary adjustments, if any, thus agreed upon between the partners, will be made through the Profit and Loss Adjustment Account as already explained and the result of such adjustments as shown by this account will be credited or debited to all the Partners' Capital Accounts in their respective profit-sharing proportions.

Q. 235. *Discuss the desirability of having a clause in the Partnership Deed for the purpose of ascertaining a deceased partner's share.*

A. In order to avoid disputes and the consequent litigation which are so commonly experienced between the surviving partners and the representatives of the deceased partner, it is highly desirable that the Partnership Deed must be most carefully drafted and must include clauses clearly defining the manner in which the amount due to a deceased partner's estate is to be ascertained and how the accounts of the partners *inter se* are to be adjusted under such a circumstances. Such an agreement must indicate the procedure to be adopted in regard to the following matters:—

1. The basis of arriving at the deceased partner's share of profits from the date of the last Balance Sheet to the date of his death.

2. Whether the Capital of the deceased partner is to be taken at the balance standing on his Capital Account at the date of death, or whether the assets of the firm are to be revalued for the purpose of adjusting the deceased partner's Capital.

3 The basis of ascertaining the value of goodwill in order that the Capital Account of the deceased partner may be credited with his proportionate share thereof

4 The mode of payment of the deceased partner's share

Where any such procedure is laid down in the partnership agreement, the same will have to be rigidly followed in ascertaining the ultimate amount payable by the surviving partners to the legal representatives of the deceased partner

In order not to cripple the financial resources of the firm, an arrangement is sometimes made with the retiring partner or the representatives of the deceased partner, whereby the amount ascertained as due and payable is agreed to be spread over a number of years, interest at an agreed rate being paid on the balance outstanding from year to year In such a case, the ultimate balance as adjusted on the Capital Account of the retiring or deceased partner should be transferred to a separate Loan Account in the name of the retiring partner or the representatives of the deceased partner, as the case may be The Capital Account of the retiring or the deceased partner will thus be closed

Q. 236 *C, D and E were partners, sharing profits in the proportions of one-half, one-third and one-sixth respectively The Balance Sheet of the firm on 31st December 1966 was as follows —*

		Rs		Rs	Rs
Sundry Creditors		19 000	Cash at Bank		2,500
Bills Payable		5,000	Debtors	16,000	
Reserve Fund		12,000	*Less* Reserve	500	
Capital Accounts —	Rs				15,500
C	40 000		Stock		25 000
D	30 000		Motor Vans		8,000
E	25,000		Plant and Machinery		35 000
		95,000	Factory Building		45,000
	Rs	1,31,000		Rs	1,31,000

D retires on that date subject to the following adjustments —

(1) The Goodwill of the firm to be valued at Rs 18,000,

(2) Plant to be depreciated by 10% and Motor Vans by 15%,

(3) Stock to be appreciated by 20% and Building by 10%, and

(4) The Reserve for Doubtful Debts to be increased by Rs 1,950

Pass the Journal Entries, give the Capital Account of D, the Profit and Loss Adjustment Account, the Goodwill Account and prepare the Balance Sheet of the continuing partners, as at 1st January

A.

JOURNAL ENTRIES

		L.F.	Rs.	Rs.
Reserve Fund Account	Dr.		4,000	
To D's Capital Account				4,000
(Being the share of Reserve Fund credited to the outgoing partner.)				
Goodwill Account	Dr.		6,000	
To D's Capital Account				6,000
(Being the proportionate value of Goodwill credited to the outgoing partner.)				
C's Capital Account	Dr.		4,500	
E's " "	"		1,500	
To Goodwill Account				6,000
(Being the entry for wiping off the debit balance on Goodwill Account.)				
Profit and Loss Adjustment Account	Dr.		6,650	
To Plant and Machinery				3,500
" Motor Vans				1,200
" Reserve for Doubtful Debts Account				1,950
(Being the entry for writing down the values of the above assets as agreed.)				
Stock Account	Dr.		5,000	
Factory Buildings	"		4,500	
To Profit and Loss Adjustment Account				9,500
(Being the amount of appreciation in the values of the above assets.)				
Profit and Loss Adjustment Account	Dr.		2,850	
To C's Capital Account				1,425
" D's " "				950
" E's " "				475
(Being the transfer of profits on adjustments.)				
D's Capital Account	Dr.		40,950	
To D's Loan Account				40,950
(Being the transfer of Capital to his Loan Account.)				

PROFIT AND LOSS ADJUSTMENT ACCOUNT

		Rs.		Rs.
To Plant and Machinery Account ..		3,500	By Stock Account	5,000
" Motor Vans		1,200	" Factory Building	4,500
" Reserve for Doubtful Debts Account ..		1,950		
" Profit transferred to Partners' Capital Accounts :—	Rs.			
C 1/2 ..	1,425			
D 1/3rd ..	950			
E 1/6th ..	475			
		2,850		
Rs.		9,500	Rs.	9,500

D's CAPITAL ACCOUNT

		Rs.			Rs.
1966 Dec. 31	To Balance transferred to D's Loan Account	40,950	1966 Dec. 31	By Balance b/fd.	30,000
				" Reserve Fund Account	4,000
				" Goodwill Account	6,000
				" Profit and Loss Adjustment Account	950
	Rs.	40,950		Rs.	40,950

GOODWILL ACCOUNT

		Rs.			Rs.
1966 Dec. 31	To D's Capital Account	6,000	1966 Dec. 31	By C's Capital Account—transfer	4,500
				" E's Capital Account—transfer	1,500
	Rs.	6,000		Rs.	6,000

BALANCE SHEET OF C AND E

As at 31st December 1966

Liabilities	Rs.	Rs.	*Assets*	Rs.	Rs.
Sundry Creditors		19,000	Cash at Bank		2,500
Bills Payable		5,000	Sundry Debtors	16,000	
Reserve Fund		8,000	*Less* Reserve for Doubtful Debts	2,450	
D's Loan Account		40,950			13,550
Capital Accounts —			Stock		30,000
C	36,925		Motor Vans		6,800
E	23,975		Plant and Machinery		31,500
		60,900	Factory Buildings		49,500
	Rs.	1,33,850		Rs.	1,33,850

Notes:—(a) As the Reserve Fund represents divisible profits held over, it is necessary to see that the outgoing partner's Capital Account is credited with his proportionate share thereof, although the problem may be absolutely silent thereon.

(b) In this case, the Goodwill Account need be debited only with the amount necessary to credit the outgoing partner with. The object here is to see that the outgoing partner gets his legitimate share of Goodwill, and once this is done, the debit balance on Goodwill Account should no more be allowed to stand in the books, as it represents only a fractional value of Goodwill, but should be transferred to the Capital Accounts of the continuing partners in their new profit-sharing proportions.

Q. 237. *X, Y and Z are in partnership sharing profits in proportions of 3/7ths, 3/7ths and 1/7th respectively. On 31st December 1966, Y retires and the Balance Sheet of the firm on that date was as follows:—*

BALANCE SHEET OF X, Y AND Z

As at 31st December 1966

		Rs.			Rs.
Sundry Creditors	..	6,000	Bills Receivable	..	4,000
Current Accounts :—	Rs.		Sundry Debtors	..	20,000
X	.. 3,000		Goodwill	..	5,000
Y	.. 3,500		Stock	..	14,000
Z	.. 2,000		Fixtures	..	1,500
		8,500	Cash at Bank	..	2,000
Capital Accounts :—	Rs.				
X	.. 10,000				
Y	.. 12,000				
Z	.. 10,000				
		32,000			
	Rs.	46,500		Rs.	46,500

The partnership deed provided that, in the event of a partner retiring, the Assets and Liabilities except Goodwill were to be taken as per the last Balance Sheet. Goodwill was to be valued at twice the average annual profits calculated on the basis of the five years immediately preceding the retirement. The profits were 1962, Rs. 4,010; 1963, Rs. 6,000; 1964, Rs. 8,000; 1965, Rs. 10,000; 1966, Rs. 5,000. You are to ascertain the amount payable to Y on retirement and to transfer the same to a Loan Account in his name, working the problem on the assumption that (a) the continuing partners decide to maintain Goodwill Account at the full value, (b) that they decide to leave Goodwill Account at its original value, and (c) that they decide to wipe off Goodwill Account from their books, showing Journal Entries and the adjusted Balance Sheet under each circumstance.

A. The value of Goodwill is ascertained as under :—

			Rs.
Profits	1962	..	4,010
,,	1963	..	6,000
,,	1964	..	8,000
,,	1965	..	10,000
,,	1966	..	5,000
		5)	33,010
		Rs.	6,602 ×2=Rs. 13,204.

The Book value of Goodwill will, therefore, have to be increased by Rs. 8,204.

(a) JOURNAL ENTRIES

		L F	Rs	Rs
Goodwill Account	Dr		8,204	
To X s Current Account				3,516
" Y s Current Account				3 516
Z s Current Account				1 172
(Being the appreciation in the value of Goodwill credited to Partners Current Accounts)				
Y s Current Account	Dr		7 016	
To Y s Capital Account				7,016
(Being the transfer of balance on Current Account to Capital Account)				
Y s Current Account	Dr		19 016	
To Y s Loan Account				19 016
(Being the transfer of Capital to Loan Account)				

(b) If the continuing partners decide to leave the Goodwill Account at its original value, the following further entry will have to be passed —

JOURNAL ENTRIES

		L F	Rs	Rs
X s Current Account	Dr		6 153	
Z s Current Account	"		2,051	
To Goodwill Account				8,204
(Being the adjusting entry to bring down the value of Goodwill to its original figure)				

(c) If the continuing partners decide to write off the Goodwill Account *from their books, the following entry will have to be passed —*

JOURNAL ENTRIES

		L F	Rs	Rs
X s Current Account	Dr		9,903	
Z s Current Account	"		3 301	
To Goodwill Account				13 204
(Being the amount of Goodwill wiped off from the books)				

(a) BALANCE SHEET OF X AND Z

As at 31st December 1966

(Where the Goodwill Account is maintained at its full value)

Liabilities		Rs	*Assets*	Rs
Sundry Creditors		6 000	Cash at Bank	2 000
Y s Loan Account		19 016	Bills Receivable	4 000
Current Accounts —	Rs		Sundry Debtors	20 000
X	6 516		Stock	14 000
Z	3 172		Fixtures	1,500
		9 688	Goodwill	13,204
Capital Accounts —				
X	10 000			
~~Y~~ Z	10 000			
		20 000		
	Rs	54 704	Rs	54 704

(b) BALANCE SHEET OF X AND Z

As at 31st December 1966

(Where the Goodwill Account is left unadjusted)

Liabilities		Rs.	*Assets*		Rs.
Sundry Creditors ..		6,000	Cash at Bank ..		2,000
Y's Loan Account ..		19,016	Bills Receivable ..		4,000
Current Accounts:—	Rs.		Sundry Debtors ..		20,000
X ..	363		Stock ..		14,000
Y ..	1,121		Fixtures ..		1,500
			Goodwill ..		5,000
Capital Accounts:—		1,484			
X ..	10,000				
Z ..	10,000				
		20,000			
	Rs.	46,500		Rs.	46,500

(c) BALANCE SHEET OF X AND Z

As at 31st December 1966

(Where the Goodwill Account is wiped off from the books)

Liabilities		Rs.	*Assets*		Rs.
Sundry Creditors ..		6,000	Cash at Bank ..		2,000
Y's Loan Account ..		19,016	Bills Receivable ..		4,000
Capital Accounts:—	Rs.		Sundry Debtors ..		20,000
X ..	10,000		Stock ..		14,000
Z ..	10,000		Fixtures ..		1,500
		20,000	Current Accounts:—	Rs.	
			X ..	3,387	
			Z ..	129	
					3,516
	Rs.	45,016		Rs.	45,016

Notes:—(1) In this case, as the Goodwill Account already appears in the firm's books at Rs. 5,000 and the value of Goodwill is ascertained to be Rs. 13,204 at the time of retirement of one of the partners in terms of the partnership deed, an adjusting entry has become necessary only in respect of the additional amount of Rs. 8,204.

(2) As it is apparent on the face of the Balance Sheet that the capitals are fixed quantities, the necessary adjustments have been made on the current accounts of the partners.

Q. 238. *A, B and C are partners sharing profits 2/5ths, 2/5ths and 1/5th respectively and their Balance Sheet on 31st December 1963 showed as follows:—*

BALANCE SHEET

		Rs		Rs.
Cred tors		29 000	Cash at Bank	4 000
Capital Accounts —	Rs		Debtors	30 000
A	30 000		Stock	45 000
B	20 000		Plant and Fixtures	20 000
C	20 000	70 000		—
	Rs	99 000	Rs	99 000

C dies on 1st September 1964 and the deed provides that the estate of the deceased shall be entitled to a share of the profits up to the date of death based on the profits of the previous year together with a share in respect of Goodwill to be calculated on the basis of two years purchase of the average net profits of the previous three years The net profits for the years 1961 1962 and 1963 were Rs 20 000 Rs 22 000 and Rs 18 000 respectively C had withdrawn Rs 1 500 from the date of the last Balance Sheet to the date of his death and 6% Interest was agreed to be credited on the Capital of each partner The whole amount due to the deceased as at 1st September 1963 was to be temporarily credited to his Loan Account opened in the name of the Executors

A The value of Goodwill and C s Share of Profit are ascertained as under —

		Rs			Rs
Profits	1961	20 000	Profit for 1963	=	18 000
	1962	22 000	8 months	=	12 000
	1963	18 000	1/5th share thereof	=	2,400
	3)	60 000			
	Rs	20 000×2=40 000			

C s Share of Goodwill will be 1/5th of 40 000 = 8 000

C s CAPITAL ACCOUNT

1964		Rs	1964		Rs
Sept 1	To Drawings Account—Transfer	1 500	S pt 1	By Balance b/fd	20 000
	„ Balance transferred to Loan Account of the Executors	29 700		Profit & Loss Account	2 400
				Goodwill Account	8 000
				Interest	800
	Rs	31 200		Rs	31 200

THE EXECUTORS OF C (Deceased) LOAN ACCOUNT

			1964		Rs
			Sept. 1	By Balance transferred from C s Capital A/c	29 700

Q. 239. *Following up the above illustration, assuming that it was agreed between the surviving partners and the Executors of the deceased that the amount due to the latter be paid to them within 3 years by six monthly instalments of Rs. 5,500 each, interest at 6% being calculated on the balance owing with half-yearly rests, the accounts of the Executors will appear as under:—*

THE EXECUTORS OF C (Deceased) LOAN ACCOUNT

		Rs. P.			Rs. P.
1965			1964		
Feb. 28	To Bank ..	5,500.00	Sept. 1	By Balance ..	29,700.00
" "	" Balance c/d. ..	25,091.00	1965		
			Feb. 28	" Interest ..	891.00
	Rs.	30,591.00		Rs.	30,591.00
1965			1965		
Aug. 31	To Bank ..	5,500.00	Mar. 1	By Balance b/d. ..	25,091.00
" "	" Balance c/d. ..	20,343.73	Aug. 31	" Interest ..	752.73
	Rs.	25,843.73		Rs.	25,843.73
1966			1965		
Feb. 28	To Bank ..	5,500.00	Sept. 1	By Balance b/d. ..	20,343.73
" "	" Balance c/d. ..	15,454.04	1966		
			Feb. 28	" Interest ..	610.31
	Rs.	20,954.04		Rs.	20,954.04
1966			1966		
Aug. 31	To Bank ..	5,500.00	Mar. 1	By Balance b/d. ..	15,454.04
" "	" Balance c/d. ..	10,417.66	Aug. 31	" Interest ..	463.62
	Rs.	15,917.66		Rs.	15,917.66
1967			1966		
Feb. 28	To Bank ..	5,500.00	Sept. 1	By Balance b/d. ..	10,417.66
" "	" Balance c/d. ..	5,230.21	1967		
			Feb. 28	" Interest ..	312.55
	Rs.	10,730.21		Rs.	10,730.21
1967			1967		
Aug. 31	To Bank ..	5,387.11	Mar. 1	By Balance b/d. ..	5,230.21
			Aug. 31	" Interest ..	156.90
	Rs.	5,387.11		Rs.	5,387.11

Q. 240. *E, F and G are in partnership sharing profits equally. E dies on 31st March 1967, and the partnership deed provided inter alia that:—*

(1) The share of the deceased partner's Capital Account shall be taken at the balance on his Capital Account as at the date of the last financial close, *less* the withdrawals, if any, made to the date of death.

(2) That his share of profit to the date of death be calculated on the basis of the average of the three preceding years.

(3) That the Goodwill of the firm shall be taken at one year's purchase of the average profits of the preceding five years

(4) That the Firm's Freehold Property shall be taken at an independent valuation.

The firm's Balance Sheet was as under :—

BALANCE SHEET OF E, F AND G

As at 31st December 1966

		Rs			Rs
Creditors	..	18,900	Cash at Office	..	500
Capital Accounts —	Rs.		„ at Bank	..	4,500
E	.. 30 000		Debtors	..	10,000
F	.. 20,000		Stock	..	15,000
G	20,000		Freehold Property	..	40,000
		70,000	Goodwill	..	18,900
	Rs.	*88,900*		*Rs*	*88,900*

Freehold Property was valued at Rs 58,000

The profits for the five years ended 31st December 1966 were —

		Rs
1962	..	11,500
1963	..	14,000
1964	..	9,000
1965	..	8,000
1966	..	10,000

Pass the Journal Entries and show E's Capital Account and the Balance Sheet of the surviving partners Show also how the Balance Sheet will appear if the Goodwill Account is wiped off from the books of the firm.

A. The value of Goodwill is ascertained as under :—

				Rs.
Profits	1962	..	..	11,500
„	1963	..	..	14,000
„	1964	..	..	9,000
„	1965	..	..	8,000
„	1966	..	..	10,000
			5)	52,500
				10,500

∴ Goodwill had depreciated in value by Rs 8,400.

E's Share of Profit :—

		Rs.
Profits for 1964	.. ..	9,000
„ „ 1965	.. ..	8,000
„ „ 1966	.. ..	10,000
	3)	27,000

Average profit of one year	= 9,000
∴ Profit for 3 months	= 2,250
1/3rd share thereof	= 750

JOURNAL ENTRIES

	L.F.	Rs.	Rs.
Profit and Loss Appropriation Account .. .. Dr.		750	
To E's Capital Account			750
(Being the adjustment of profits due to E as per the agreement.)			
E's Capital Account .. .. Dr.		2,800	
F's „ „ .. .. „		2,800	
G's „ „ .. .. „		2,800	
To Goodwill			8,400
(Being the adjustment of depreciation in Goodwill.)			
Freehold Property Account .. .. Dr.		18,000	
To E's Capital Account			6,000
„ F's „ „			6,000
„ G's „ „			6,000
(Being the amount of appreciation in value of Freehold Property credited to all the partners' Capital Accounts.)			
E's Capital Account .. .. Dr.		33,950	
To the Executors of E (deceased)			33,950
(Being the transfer of Capital to the latter Account.)			

E's CAPITAL ACCOUNT

Date	Particulars	Rs.	Date	Particulars	Rs.
1967 Mar. 31	To Goodwill Account ..	2,800	1966 Dec, 31	By Balance b/fd. ..	30,000
„ „	„ Balance transferred to the executors of E (deceased) ..	33,950	1967 Mar. 31	„ Profit and Loss Appropriation Account ..	750
				„ Freehold Property ..	6,000
	Rs.	36,750		Rs.	36,750

THE EXECUTORS OF E (Deceased) LOAN ACCOUNT

			Date	Particulars	Rs.
			1967 Mar. 31	By Balance transferred from E's Capital Account ..	33,950
				Rs.	33,950

BALANCE SHEET OF F AND G

As at 31st March 1967

(Where the Goodwill Account is maintained at its present value)

Liabilities		Rs	Assets		Rs
				Rs	
Sundry Creditors		18 900	Cash at Office	500	
Loan Account of the Executors of E (deceased)		33 950	„ at Bank	4,500	5 000
Capital Accounts —	Rs		Sundry Debtors		10 000
F	23 200		Stock		15 000
G	23 200		Freehold Property		58 000
		46 400	Goodwill		10 500
			Profit and Loss Appropriation Account — Share of the deceased partner		750
	Rs	99,250		Rs	99 250

BALANCE SHEET OF F AND G

As at 31st March 1967

(Where Goodwill Account is wiped off from the firm's books)

Liabilities		Rs	Assets		Rs
				Rs	
Sundry Creditors		18 900	Cash at Office	500	
Loan Account of the Executors of E (deceased)		33,950	„ at Bank	4,500	5 000
Capital Accounts —	Rs.		Sundry Debtors		10 000
F	17,950		Stock		15 000
G	17,950		Freehold Property		58 000
		35,900	Profit and Loss Appropriation Account — Share of the deceased partner		750
	Rs	88 750		Rs	88 750

Notes —(a) As the item Goodwill already appears in the firm's Balance Sheet at Rs 18 900 it seems that the firm must have paid for Goodwill on acquiring a running business Now on ascertainment of the value of Goodwill *on the death of one of the partners as laid down in the partnership deed* it is found to be worth Rs. 10 500 only This appreciation of Rs 8 400 in the value of Goodwill is therefore adjusted on the Capital Accounts of the partners equally as they are equal sharers in the profits

(b) If the surviving partners decide to eliminate Goodwill Account from their books the entry necessary to give effect to this will be to debit the Capital Account of each surviving partner in his new profit sharing proportion and credit the Goodwill Account

Q 241 X and Y amalgamate their business on 1st January 1967 their Balance Sheet being as follows —

BALANCE SHEET OF X

	Rs.		Rs.
Creditors ..	25,000	Cash at Bank ..	2,500
Loan from Mrs. X ..	7,500	Debtors ..	20,000
Capital ..	35,000	Stock ..	15,000
		Furniture and Fixtures ..	2,000
		Plant ..	28,000
Rs.	67,500	Rs.	67,500

BALANCE SHEET OF Y

	Rs.		Rs.	Rs.
Creditors ..	40,000	Stock ..		25,000
Capital ..	23,000	Debtors ..	25,000	
		Less Reserve ..	1,000	
				24,000
		Bills Receivable ..		2,000
		Plant ..		12,000
Rs.	63,000	Rs.		63,000

The following adjustments were agreed upon :—

(a) The Goodwill of X and Y was agreed at Rs. 7,500 and Rs. 5,000 respectively; (b) The plant of X was to be depreciated by 10% and that of Y was to be taken at book value; (c) 5% Reserve for Doubtful Debts was to be created on Debtors of both the parties; (d) X's stock was to be appreciated by 15% and Y's to be depreciated by 5%; (e) X's Fixtures were taken over at Rs. 3,000 and the creditors of each were brought in less 5% Reserve for Discounts; (f) The private liability of X and the Bills Receivable of Y were not brought in; (g) Y is to be credited with Rs. 2,300 for Patent Rights which he possesses and which are to be deemed as partnership property; (h) X brought in his Bank balance and Y was to bring in the necessary amount in cash in order to equal his Capital to that of X.

Pass Journal Entries recording the Assets and Liabilities brought in and prepare the opening Balance Sheet of the amalgamated firm.

A. JOURNAL ENTRIES

		L.F.	Rs.	Rs.
Bank Account ..	.. Dr.		2,500	
Sundry Debtors' Account ..	.. "		20,000	
Stock ..	.. "		17,250	
Furniture and Fixtures Account ..	.. "		2,300	
Plant ..	.. "		25,200	
Reserve for Discount on Creditors ..	.. "		1,250	
Goodwill ..	.. "		7,500	
To Sundry Creditors				25,000
" Reserve for Doubtful Debts				1,000
" X's Capital Account				50,000
(Being the values of Assets and Liabilities brought in by X as per agreement.)				

JOURNAL ENTRIES—*contd.*

	L.F.	Rs.	Rs.
Bank Account .. .. .. Dr.		20,500	
Sundry Debtors .. .. .. "		25,000	
Stock .. .. .. "		23,750	
Patents .. .. .. "		3,000	
Plant .. .. .. "		12,000	
Reserve for Discount on Creditors .. .. "		2,000	
Goodwill .. .. .. "		5,000	
To Sundry Creditors			40,000
" Reserve for Doubtful Debts			1,250
" Y's Capital			50,000
(Being the values of Assets and Liabilities brought in by Y as per agreement.)			

BALANCE SHEET OF X AND Y

As at 1st January 1967

Liabilities	Rs.	Rs.	*Assets*	Rs.	Rs.
Sundry Creditors ..	65,000		Cash at Bank		23,000
Less Reserve for Discount on Creditors ..	3,250		Sundry Debtors ..	45,000	
		61,750	*Less* Reserve for Doubtful Debts ..	2,250	
Capital Accounts :—					42,750
X ..	50,000		Stock ..		41,000
Y ..	50,000		Patents ..		2,300
		1,00,000	Furniture and Fixtures ..		3,000
			Plant ..		37,200
			Goodwill ..		12,500
Rs.		1,61,750		Rs.	1,61,750

Q. 242. *Under what circumstances would a partnership be dissolved?*

A. A dissolution of a partnership may take place due to any of the following causes :—

(1) By mutual agreement between the partners to dissolve.

(2) If entered into for a fixed term, by the expiration of that term.

(3) If entered into for a single undertaking or venture, by the completion of that undertaking or venture.

(4) If entered into for an undefined time, by any partner giving a notice to the other partners of his intention to dissolve.

(5) Subject to any agreement between the partners, on the death or bankruptcy of any of the partners, or on any of the partners suffering his share of the partnership property to be charged for his separate debt.

(6) On the insolvency of the partnership business.

Q. 243. *State the rules for settling accounts between the partners on a dissolution.*

A. In settling accounts between the partners after a dissolution of partnership, the following rules shall, subject to any agreement, be observed :—

(a) Losses including losses and deficiencies of capital shall be paid first out of profits, next out of capital, and lastly, if necessary, by the partners individually in the proportion in which they are entitled to share profits.

(b) The assets of the firm including the sums, if any, contributed by the partners to make up losses or deficiencies of capital shall be applied in the following manner and order :—

(1) In paying the debts and liabilities of the firm to persons who are not partners therein.

(2) In paying to each partner rateably what is due from the firm to him for advances as distinguished from capital.

(3) In paying to each partner rateably what is due from the firm to him in respect of Capital.

(4) The ultimate residue, if any, shall be divided among the partners in the proportion in which profits are divisible.

Q. 244. *Give the necessary entries for final adjustment of accounts on dissolution.*

A. The following steps are necessary to record the realisation of the assets and the adjustment of accounts between the partners on a dissolution of the business :—

(1) Open a Realisation Account and transfer thereto all the assets at **book values** (with the exception of Cash and Bank Accounts), thus closing all asset accounts. The entry will be to debit the Realisation Account and credit each asset account.

(2) Transfer all the Liabilities (other than Loan from a partner) to the Realisation Account, at **book values**, by debiting each Liability Account and crediting the Realisation Account. The effect of this entry will be to close all the separate liability accounts and bring these on the credit of Realisation Account.

(3) On the assets being sold, debit Bank Account and credit the Realisation Account with the sale proceeds.

(4) When any partner takes over any assets at an agreed value, debit such partner's Capital Account and credit the Realisation Account with the sale price.

(5) Debit Realisation Account and credit Bank Account with the amounts paid out in respect of Liabilities.

(6) Debit Realisation Account and credit Bank Account with any expenses incurred in connection with the dissolution.

(7) The balance on the Realisation Account will now indicate the profit or loss on realisation.

(8) Transfer such profit or loss to the partners' Capital Accounts in the proportion in which they share profits or losses

(9) If there is a Loan by a partner, the same will be paid out and the entry will be to debit the Partner's Loan Account and credit Bank

(10) If any partner's Capital Account shows a debit balance, the partner concerned must bring in cash to make good the deficiency, the entry being to debit Bank Account and credit such partner's Capital Account

(11) The balance at Bank will now exactly equal the total balances on the Capital Accounts of the partners Each partner will be paid what is ultimately owing to him by the firm as shown by his respective Capital Account The entry will be to debit each partner's Capital Account and to credit the Bank Account

Notes —(a) If there are balances on Partners' Current Accounts (debit or credit), the same will have to be transferred to their respective Capital Accounts, prior to the final distribution of cash amongst the partners

(b) If there is any cash balance at the date of dissolution, the same should be transferred over to the Bank Account and the amount should be paid into the Bank The Bank Account should not be closed by transfer to the Realisation Account, as it will have to be operated upon till the final distribution of cash amongst the partners

Q 245 *Explain how the Goodwill of a firm is dealt with upon a dissolution of partnership*

A. Upon a dissolution of partnership, the Goodwill of the firm will have to be realised along with the other assets for the common benefit of all the partners If the business is taken over by one of the partners who intends to carry it on in the same old name, the value of Goodwill will have to be determined in accordance with the basis, if any, as laid down in the partnership agreement, and where no agreement exists, by mutual understanding amongst the partners The amount as then agreed upon as representing the Goodwill value, will have to be debited to Goodwill Account and credited to the Capital Accounts of all the partners in the same proportions as they share profits The Capital Account of the partner who takes over the business, will have to be debited with the full value of Goodwill and Realisation Account would be credited

Where the entire business is taken over by a Limited Company, the value of Goodwill, if any, would be included in the amount of purchase-consideration agreed upon, and the Purchasing Company would be debited with the total amount it has agreed to pay (inclusive of Goodwill) and the Realisation Account would be credited

Q. 246. *P and Q agree to dissolve partnership on 31st December 1966 on which date their Balance Sheet was as follows —*

BALANCE SHEET

Liabilities		Rs.	Assets	Rs.
Sundry Creditors ..		6,000	Cash ..	1,000
P's Loan Account ..		8,000	Sundry Debtors ..	5,000
Capital Accounts :—	Rs.		Stock ..	20,000
P ..	20,000		Plant and Fixtures ..	14,000
Q ..	10,000		Goodwill ..	4,000
		30,000		
	Rs.	44,000	Rs.	44,000

The partners share profits and losses in proportion to their capitals.

The Sundry Debtors realised Rs. 4,200, Stock Rs. 18,000, Plant and Fixtures 20% less than the book value and the Goodwill Rs. 6,000. The Creditors were paid off at a discount of 5% and the costs of dissolution amounted to Rs. 600.

Pass the necessary Journal Entries to show the process of realisation and open the dissolution accounts showing the final disposal of cash balance.

A. JOURNAL ENTRIES

		L.F.	Rs.	Rs.
1966 Dec. 31	Realisation Account .. .. Dr.		43,000	
	To Sundry Debtors			5,000
	„ Stock			20,000
	„ Plant and Fixtures			14,000
	„ Goodwill			4,000
	(Being the transfer of the above assets to Realisation Account at book values.)			
	Sundry Creditors .. .. Dr.		6,000	
	To Realisation Account			6,000
	(Being the transfer of Sundry Creditors to Realisation Account.)			
	Bank Account .. .. Dr.		39,400	
	To Realisation Account			39,400
	(Being the amount realised on sale of assets as under :— Rs. Sundry Debtors .. .. .. 4,200 Stock .. .. .. 18,000 Plant and Fixtures .. .. 11,200 Goodwill 6,000 39,400.)			
	Realisation Account .. .. Dr.		600	
	To Bank			600
	(Realisation expenses paid.)			
	Realisation Account .. .. Dr.		5,700	
	To Bank			5,700
	(Being the payment of sundry liabilities at a discount of 5%.)			
	P's Capital Account .. .. Dr.		2,600	
	Q's „ „ .. .. „		1,300	
	To Realisation Account			3,900
	(Being the transfer of loss on realisation to Partners' Capital Accounts in their profit-sharing proportions.)			

JOURNAL ENTRIES—*contd*

			L F	Rs	Rs
	P s Loan Account To Bank (Being the payment of Loan given by P to the firm)	Dr		8 000	8 000
	P s Capital Account Q s " To Bank (Being the withdrawal by the partners of the balance standing to their Capital Accounts)	Dr		17 400 8 700	26 100

BANK ACCOUNT

1966		Rs	1966		Rs
Dec 31	To Balance	1 000	Dec 31	By Realisation Account— Cost of realisation	600
" "	Realisation Account— Sundry assets realised	39 400	" "	Realisation Account— Payment of liabilities	5 700
				" P s Loan Account	8 000
				P s Capital Account	17 400
				" Q s	8 700
	Rs	40 400		Rs	40 400

REALISATION ACCOUNT

1966		Rs	1966		Rs
Dec 31	To Sundry Assets— Transfer	43 000	Dec 31	By Sundry Liabilities— Transfer	6 000
	Bank— Cost of realisation	600		Bank— Assets realised	39 400
	" Bank— Liabilities paid	5 700		" Capital Accounts— (Loss transferred) Rs P 2/3rds 2 600 Q 1/3rd 1 300	3,900
	Rs	49 300		Rs	49 300

P s LOAN ACCOUNT

1966		Rs	1966		Rs.
Dec 31	To Bank	8 000	Dec 31	By Balance	8 000
	Rs	8 000		Rs	8 000

P's CAPITAL ACCOUNT

		Rs.			Rs.
1966			1966		
Dec. 31	To Realisation Account— 2/3rds share of loss ..	2,600	Dec. 31	By Balance ..	20,000
	„ Bank ..	17,400			
	Rs.	20,000		Rs.	20,000

Q's CAPITAL ACCOUNT

		Rs.			Rs.
1966			1966		
Dec. 31	To Realisation Account— 1/3rd share of loss ..	1,300	Dec. 31	By Balance ..	10,000
	„ Bank ..	8,700			
	Rs.	10,000		Rs.	10,000

Q. 247. *On 30th June 1967, X and Y who have been trading in partnership and sharing profits in 2/3rds and 1/3rd decide to dissolve and trade separately. Their Balance Sheet on that date showed as follows:—*

BALANCE SHEET

Liabilities	Rs.	Rs.	*Assets*	Rs.	Rs.
Creditors ..		13,000	Cash at Bank ..		2,000
Reserve Account ..		3,000	Sundry Debtors ..	12,500	
Current Accounts :—	Rs.		*Less* Reserve ..	500	
X	1,500				12,000
Y	1,500		Investments ..		5,000
		3,000	Stock ..		29,000
Capital Accounts :—			Furniture and Fixtures ..		1,000
X	20,000				
Y	10,000				
		30,000			
Rs.		49,000	Rs.		49,000

X agrees to discharge the liabilities and takes over the Bank balance. He also takes over the Book Debts at Rs. 10,000. Y takes over the Stock at Rs. 30,000, Fixtures at Rs. 900 and the Investments at Rs. 8,500. Y is allowed to carry on the trade in the old Firm's name on his taking over the Goodwill at Rs. 9,000. Pass the necessary Journal Entries, show Realisation Account and the Capital Accounts and prepare Balance Sheet showing the final position of the partners.

A JOURNAL ENTRIES

		L.F	Rs.	Rs
Reserve Fund	Dr		3 000	
To X s Current Account				2,000
„ Y's „ „				1 000
(Being the transfer of Reserve to Partners Current Accounts.)				
Realisation Account	Dr		49,500	
To Cash at Bank				2,000
„ Sundry Debtors				12,500
„ Investments				5 000
„ Stock				29 000
„ Furniture and Fixtures				1 000
(Being the transfer of above assets to Realisation Account)				
Sundry Creditors	Dr		13 000	
Reserve for Doubtful Debts	„		500	
To Realisation Account				13,500
(Being the transfer of liabilities to Realisation Account.)				
X's Current Account	Dr		12,000	
To Realisation Account				12,000
(Being the value of assets taken over by X as under — Rs *Cash at Bank* 2,000 Sundry Debtors 10 000 12 000)				
Realisation Account	Dr		13 000	
To X s Current Account				13 000
(Being the liability in respect of *Sundry Creditors* taken over by X.)				
Y s Current Account	Dr		48 400	
To Realisation Account				48 400
(Being *the value of Goodwill and other assets taken over* by Y as under — Rs. Stock 30 000 Fixtures 900 Investments 8,500 Goodwill 9 000 48 400)				
Realisation Account	Dr		11 400	
To X s Current Account				7 600
„ Y s „ „				3 800
(Being the *transfer of profits on realisation to* Partners Current Account.)				
X s Current Account	Dr		12 100	
To X s Capital Account				12,100
(Being the transfer of Current Account balance to Capital Account.)				
Y's Capital Account	*Dr*		42 100	
To Y s Current Account				42 100
(Being the transfer of debit balance on Current Account to Capital Account.)				

REALISATION ACCOUNT

		Rs.		Rs.
To Sundry Assets ..		49,500	By Sundry Liabilities ..	13,500
„ X's Current Account ..		13,000	„ X's Current Account ..	12,000
„ Current Accounts:—			„ Y's „ „ ..	48,400
(Profits transferred)	Rs.			
X 2/3rds ..	7,600			
Y 1/3rd ..	3,800			
		11,400		
	Rs.	73,900	Rs.	73,900

X's CURRENT ACCOUNT

	Rs.		Rs.
To Realisation Account ..	12,000	By Balance b/fd. .	1,500
„ X's Capital Account—Transfer ..	12,100	„ Reserve Fund ..	2,000
		„ Realisation Account ..	13,000
		„ Realisation Account— .. 2/3rds share of profits ..	7,600
Rs.	24,100	Rs.	24,100

X's CAPITAL ACCOUNT

	Rs.		Rs.
To Balance c/d. ..	32,100	By Balance b/fd. .	20,000
		„ X's Capital Account—Transferred	12,100
Rs.	32,100	Rs.	32,100
		By Balance b/d. ..	32,100

Y's CURRENT ACCOUNT

	Rs.		Rs.
To Realisation Account ..	48,400	By Balance b/fd. ..	1,500
		„ Reserve Fund ..	1,000
		„ Realisation Account— 1/3rd share of profits ..	3,800
		„ Y's Capital Account—Transfer ..	42,100
Rs.	48,400	Rs.	48,400

Y's CAPITAL ACCOUNT

	Rs.		Rs.
To Y's Current Account—Transfer ..	42,100	By Balance b/fd. ..	10,000
		„ Balance c/d. ..	32,100
Rs.	42,100	Rs.	42,100
To Balance b/d. ..	32,100		

BALANCE SHEET

Showing the final position of X and Y

Liabilities	Rs	Assets	Rs
X s Capital Account	32 100	Y s Capital Account	32,100
Rs	32 100	Rs.	32,100

Note —As the Capitals are fixed in this case, all the adjustments in regard to dissolution are made on the Current Accounts of the partners and the ultimate balances on these accounts are then transferred to the respective Capital Accounts

Q 248 *Slow and Sure have been in business together for the three years ending with 31st December 1966, at which date they agree to dissolve The Capital at the commencement was, Slow Rs 20,000 and Sure Rs 15 000 Slow takes over the business and agrees to pay Sure Rs 5 000 for his share of Goodwill Slow and Sure both have drawn Rs 3,000 and Rs 4 000 per annum each of the three years The profits were Rs 10,500, Rs 12,000 and Rs 15,000 respectively*

Give Journal Entries, Capital Accounts and Realisation Account assuming that the outgoing partner has been paid out

A

JOURNAL ENTRIES

		L.F	Rs	Rs
Realisation Account To Sundry Assets (Being the transfer of Assets to Realisation Account at book values)	Dr		51 500	51,500
Slow s Capital Account To Realisation Account (Being the purchases of Assets by Slow)	Dr		51 500	51,500
Slow s Capital Account To Sure s Capital Account (Being the amount of Goodwill agreed to be paid by Slow to Sure)	Dr		5 000	5 000
Bank To Slow s Capital Account (Being the amount brought in by him in settlement of account)	Dr		26 750	26 750
Sure s Capital Account To Bank (Being the payment of the amount in final settlement.)	Dr		26 750	26 7*0

REALISATION ACCOUNT

	Rs.		Rs.
To Sundry Assets ..	51,500	By Slow's Capital Account—Transfer ..	51,500
Rs.	51,500	Rs.	51,500

SLOW'S CAPITAL ACCOUNT

		Rs.			Rs.
1964			1964		
Dec. 31	To Drawings Account—Transfer ..	3,000	Jan. 1	By Bank ..	20,000
" "	„ Balance c/d. ..	22,250	Dec. 31	„ Profit and Loss Account—Half Share	5,250
	Rs.	25,250		Rs.	25,250
1965			1965		
Dec. 31	To Drawings Account—Transfer ..	3,000	Jan. 1	By Balance b/d. ..	22,250
" "	„ Balance c/d. ..	25,250	Dec. 31	„ Profit and Loss Account—Half Share	6,000
	Rs.	28,250		Rs.	28,250
1966			1966		
Dec. 31	To Drawings Account—Transfer ..	3,000	Jan. 1	By Balance b/d. ..	25,250
" "	„ Realisation Account ..	51,500	Dec. 31	„ Profit and Loss Account—Half Share	7,500
" "	„ Sure's Capital Account ..	5,000	" "	„ Bank ..	26,750
	Rs.	59,500		Rs.	59,500

SURE'S CAPITAL ACCOUNT

		Rs.			Rs.
1964			1964		
Dec. 31	To Drawings Account—Transfer ..	4,000	Jan. 1	By Bank ..	15,000
" "	„ Balance c/d. ..	16,250	Dec. 31	„ Profit and Loss Account—Half Share	5,250
	Rs.	20,250		Rs.	20,250
1965			1965		
Dec. 31	To Drawings Account—Transfer ..	4,000	Jan. 1	By Balance b/d. ..	16,250
" "	„ Balance c/d. ..	18,250	Dec. 31	„ Profit and Loss Account—Half Share	6,000
	Rs.	22,250		Rs.	22,250
1966			1966		
Dec. 31	To Drawings Account—Transfer ..	4,000	Jan. 1	By Balance b/d. ..	18,250
" "	„ Bank ..	26,750	Dec. 31	„ Profit and Loss Account—Half Share	7,500
			" "	„ Slow's Capital ..	5,000
	Rs.	30,750		Rs.	30,750

Notes:—(a) As Slow takes over the Assets, it is necessary to ascertain the book value of these In the absence of any detailed information in shape of a Balance Sheet, the book value of Assets may be taken to be the same as the total Capital of the firm on that date This is arrived at as under —

		Rs
Total Capital at commencement		35,000
Add 3 years' profits		37,500
		72,500
Less total withdrawals by partners		21,000
Capital at date of dissolution i e value of net assets	Rs	51,500

(b) The agreement by Slow *to pay Sure Rs 5,000 for his share of* Goodwill is given effect to in the above working by debiting Slow's Capital Account and crediting Sure's Capital Account with that amount

Q. 249. *On 1st January* 1966 *A, B and C commenced business in partnership sharing profits and losses in the proportions of 1/2, 1/3rd and 1/6th respectively They paid into their Bank Account as their Capital Rs 40,000 being Rs 20,000 by A, Rs 15,000 by B and Rs 5,000 by C During the year each partner withdrew Rs 2,000 and on 31st December 1966, they dissolve their partnership, A taking up stock at an agreed valuation of Rs 7,000, B taking up furniture at Rs 1,000 and C taking up debtors at Rs 5,000 After paying off their creditors, there remained a balance of Rs 3,000 at the Bank*

Prepare the necessary accounts showing the distribution of cash at the Bank and of the further cash brought in by any partner or partners as the case required

A.

BANK ACCOUNT

	Rs		Rs
To Realisation Account	3,000	By A s Capital Account	2 000
„ C s Capital Account	5,000	„ B s Capital Account	6 000
Rs	8 000	Rs	8 000

REALISATION ACCOUNT

		Rs.			Rs.	Rs.
To Sundry Net Assets	..	34,000	By Capital Accounts:—		Rs.	
			A—Stock	..	7,000	
			B—Furniture	..	1,000	
			C—Debtors	..	5,000	
						13,000
			„ Bank	..		3,000
			„ Capital Accounts—(Loss transferred):—		Rs.	
			A ½	..	9,000	
			B ⅓rd	..	6,000	
			C 1/6th	..	3,000	
						18,000
	Rs.	34,000			Rs.	34,000

A's CAPITAL ACCOUNT

			Rs.				Rs.
1966				1966			
Dec. 31	To Drawings Account—Transfer	..	2,000	Jan. 1	By Bank	..	20,000
	„ Realisation Account—Stock	..	7,000				
	„ Realisation Account—½ loss	..	9,000				
	„ Bank	..	2,000				
		Rs.	20,000			Rs.	20,000

B's CAPITAL ACCOUNT

			Rs.				Rs.
1966				1966			
Dec. 31	To Drawings Account—Transfer	..	2,000	Jan. 1	By Bank	..	15,000
	„ Realisation Account—Furniture	..	1,000				
	„ Realisation Account—⅓rd loss	..	6,000				
	„ Bank	..	6,000				
		Rs.	15,000			Rs.	15,000

C's CAPITAL ACCOUNT

			Rs.				Rs.
1966				1966			
Dec. 31	To Drawings Account—Transfer	..	2,000	Jan. 1	By Bank	..	5,000
	„ Realisation Account—Debtors	..	5,000	Dec. 31	„ Bank	..	5,000
	„ Realisation Account—1/6th loss	..	3,000				
		Rs.	10,000			Rs.	10,000

Note—The important point in this problem is to find out the book value of the 'Net Assets", i e the assets minus the Liabilities, at the date of dissolution. As the Capital of a concern on any date is always represented by the difference between its then assets and liabilities, it is necessary to find out what the total capital was at the date the partners determined to dissolve The value of Net Assets is, therefore, arrived at as under —

Total Capital at start	Rs	40,000
Less Total Drawings	Rs	6 000
Capital at date of dissolution	Rs	34,000

i.e the book value of Net Assets on that date

Q 250 *A and B were in partnership and agreed to dissolve The assets realised Rs 75,000 The liabilities were as follows — Sundry Creditors Rs 45,000, Loan from A Rs 20,000, A's Capital Rs 10,000 and B's Capital Rs 15,000 They share profits and losses in proportions of A 3/4ths and B 1/4th*

Show by means of accounts how the cash realised should be distributed

A.

REALISATION ACCOUNT

	Rs.			Rs
To Sundry Assets	90 000	By Sundry Creditors		45,000
„ Bank—Creditors paid	45 000	„ Bank—Assets realised		75 000
		„ Capital—Accounts—(Loss transferred) —	Rs.	
		A 3/4ths	11,250	
		B 1/4th	3,750	15 000
Rs.	1,35,000	Rs.		1,35,000

BANK ACCOUNT

	Rs.		Rs.
To Realisation Account	75 000	By Realisation Account—Creditors paid	45,000
„ A s Capital Account	1,250	„ A s Loan Account	20 000
		„ B s Capital Account	11,250
Rs.	76,250	Rs.	76,250

A's CAPITAL ACCOUNT

	Rs.		Rs.
To Realisation Account—$\frac{3}{4}$ths Loss ..	11,250	By Balance b/fd. ..	10,000
		„ Bank ..	1,250
Rs.	11,250	Rs.	11,250

B's CAPITAL ACCOUNT

	Rs.		Rs.
To Realisation Account—$\frac{1}{4}$th Loss ..	3,750	By Balance b/fd. ..	15,000
„ Bank ..	11,250		
Rs.	15,000	Rs.	15,000

A's LOAN ACCOUNT

	Rs.		Rs.
To Bank ..	20,000	By Balance b/fd. ..	20,000
Rs.	20,000	Rs.	20,000

Note:—In order to work out this problem, it is necessary to ascertain the book value of the assets at the date of dissolution. As we have full information regarding the liabilities side of the Balance Sheet on that date, we may safely assume that the book value of the assets on that date equalled the total of the liabilities side. The liabilities side of the Balance Sheet is as under:—

Sundry Creditors	Rs.	45,000
A's Loan Account	Rs.	20,000
Capital of Partners	Rs.	25,000
	Rs.	90,000

Therefore the total value of the assets on this same date must be Rs. 90,000.

Q. 251. *The following is the Trial Balance of the firm of P, Q and R, on 31st December 1966:*—

	Rs	Rs.
Freehold Property (Bombay)	45 000	
Leasehold Property (Calcutta)	15 000	
Leasehold Property (Rangoon)	12 000	
Investments	6 000	
Office Furniture	1 000	
Stock (Bombay)	18 000	
(Calcutta)	16 000	
(Rangoon)	14 000	
Sundry Debtors	12 500	
Creditors		18 500
Capital P		50 000
Q		45 000
R		30 000
Cash at Bank	4 000	
Rs	1 43 500	1 43 500

They agreed to dissolve on this date on the following terms —

(a) The Freehold Property was sold and realised Rs 50 000 the Investments realised Rs 7 500 Debtors Rs 11 500 and Office Furniture Rs 600

(b) P retired from the business altogether

(c) Q took over the Calcutta business and the assets in connection therewith at book values the Goodwill thereof being valued at Rs 10 000

(d) R took over the Rangoon business and the corresponding assets at book values the Goodwill for this purpose being valued at Rs 5 000

(e) The expenses of realisation amounted to Rs 1 200

(f) The Bombay Stock was taken over by Q and R equally at book value

(g) The partners shared profits in the proportions of three-fifths one fifth and one-fifth

Pass the entries necessary to close the books assuming that each partner finally settled his account with the firm Open also the necessary accounts to show the working

A

JOURNAL ENTRIES

		L.F	Rs	Rs.
Realisation Account	Dr		1 39,500	
To Freehold Property (Bombay)				45 000
Leasehold Property (Calcutta)				15 000
„ Leasehold Property (Rangoon)				12 000
„ Investments				6 000
„ Office Furniture				1 000
„ Stock (Bombay)				18 000
„ Stock (Calcutta)				16 000
„ Stock (Rangoon)				14 000
„ Sundry Debtors				12 500
(Being the transfer of the above Assets to Realisation Account)				
Sundry Creditors	Dr		18,500	
To Realisation Account				18 500
(Being the transfer of Sundry Creditors to Realisation Account)				

JOURNAL ENTRIES—*contd.*

Particulars			L.F.	Rs.	Rs.
Bank Account		.. Dr.		69,600	
To Realisation Account					69,600
(Being the amount realised on the sale of the following assets :—	Rs.				
Freehold Property	50,000				
Investments	7,500				
Debtors	11,500				
Office Furniture	600				
	Rs. 69,600.)				
Q's Capital Account		.. Dr.		50,000	
To Realisation Account					50,000
(Being the values of Assets and Goodwill taken over by him as under :—	Rs.				
Leasehold Property (Calcutta) ..	15,000				
Stock (Calcutta)	16,000				
Stock (Bombay)	9,000				
⅔ Goodwill	10,000				
	Rs. 50,000.)				
R's Capital Account		.. Dr.		40,000	
To Realisation Account					40,000
(Being the values of Assets and Goodwill taken over by him as under :—	Rs.				
Leasehold Property (Rangoon) ..	12,000				
Stock (Rangoon)	14,000				
½ Stock (Bombay)	9,000				
Goodwill	5,000				
	Rs. 40,000.)				
Realisation Account		.. Dr.		18,500	
To Bank					18,500
(Being the payment of Liabilities in respect of Sundry Creditors.)					
Realisation Account		.. Dr.		1,200	
To Bank					1,200
(Being the payment of realisation expenses.)					
Realisation Account		.. Dr.		18,900	
To P's Capital Account					11,340
„ Q's „ „					3,780
„ R's „ „					3,780
(Being the transfer of Profits on realisation to Partners' Capital Accounts in their profit-sharing proportions.)					
Bank Account		.. Dr.		1,220	
To Q's Capital Account					1,220
(Being the amount brought in by Q.)					
Bank Account		.. Dr.		6,220	
To R's Capital Account					6,220
(Being the amount brought in by R.)					
P's Capital Account		.. Dr.		61,340	
To Bank Account					61,340
(Being the payment of amount to P in final settlement.)					

BANK ACCOUNT

	Rs		Rs
To Balance b/fd	4 000	By Realisation Account— Liabilities paid	18,500
" Realisation Account— Assets realised	69,600	" Realisation Account— Cost of realisation	1,200
" Q's Capital Account	1,220	" P s Capital Account	61,340
" R's " "	6,220		
Rs	81,040	Rs	81,040

REALISATION ACCOUNT

	Rs	Rs		Rs
To Sundry Assets		1,39,500	By Sundry Creditors	18,500
" Bank—Payments to creditors		18,500	" Bank	69,600
" Bank—Cost of realisation		1,200	" Q s Capital Account	50,000
" Capital Accounts— Profits transferred —			" R's " "	40,000
P 3/5ths	11,340			
Q 1/5th	3,780			
R 1/5th	3,780	18,900		
Rs		1,78,100	Rs	1,78,100

P's CAPITAL ACCOUNT

	Rs		Rs
To Bank	61,340	By Balance b/fd	50,000
		" Realisation Account— 3/5ths share of profits	11,340
Rs	61,340	Rs	61,340

Q s CAPITAL ACCOUNT

	Rs		Rs
To Realisation Account	50,000	By Balance b/fd	45,000
		" Realisation Account— 1/5th share of profits	3,780
		" Bank	1,220
Rs	50,000	Rs	50,000

R's CAPITAL ACCOUNT

	Rs		Rs
To Realisation Account	40,000	By Balance b/fd	30 000
		" Realisation Account— 1/5th share of profits	3 780
		" Bank	6 220
Rs	40 000	Rs.	40 000

Q. 252. *C, D and E are in partnership, C contributing Rs. 15,000, D, Rs. 11,000 and E, Rs. 10.000 as Capital on 1st January 1965. D advances Rs. 6,000 to the firm after six months at 6% Interest. Interest on Capital is agreed by the partners to be taken at 5%. The first year's profits before charging interest on Capital amounted to Rs. 9,000 and the second year showed a loss of Rs. 3.000. Each partner withdrew Rs. 1,000 per annum in anticipation of profits. E dies on 31st December 1966 and the partnership is at once dissolved. The assets valued at Rs. 52,000 realise Rs. 30,000 and the outside liabilities amounting to Rs. 10,000 are satisfied on payment of Rs. 9,000. You are requested by the surviving partners to prepare the necessary accounts showing the final distribution.*

A.

PROFIT AND LOSS ACCOUNT

Date	Particulars		Rs.	Date	Particulars		Rs.
1965				1965			
Dec. 31	To Interest on Capitals :—	Rs.		Dec. 31	By Balance ..		9,000
	A ..	750					
	B ..	550					
	C ..	500					
			1,800				
" "	" Net Profits transferred to Capital Accounts :—	Rs.					
	A ..	2,400					
	B ..	2,400					
	C ..	2,400					
			7,200				
	Rs.		9,000		Rs.		9,000
1966				1966			
Dec. 31	To Balance ..		3,000	Dec. 31	By Net Loss transferred to Capital Accounts :—	Rs.	
	" Interest on Capitals :—	Rs. P.			A ..	1,700	
	A ..	857.50			B ..	1,700	
	B ..	647.50			C ..	1,700	
	C ..	595.00					5,100
			2,100				
	Rs.		5,100		Rs.		5,100

REALISATION ACCOUNT

Date	Particulars		Rs.	Date	Particulars		Rs.
1966				1966			
Dec. 31	To Sundry Assets ..		52,000	Dec. 31	By Sundry Liabilities ..		10,000
	" Bank—Liabilities paid ..		9,000		" Bank—Assets Realised ..		30,000
					" Capital Accounts—(Loss transferred)	Rs.	
					C 1/3rd ..	7,000	
					D 1/3rd ..	7,000	
					E 1/3rd ..	7,000	
							21,000
	Rs.		61,000		Rs.		61,000

BANK ACCOUNT

		Rs P			Rs P
1966 Dec 31	To Realisation Account— Assets realised	30 000 00	1966 Dec 31	By Realisation Account— Liabilities paid	9 000 00
				, D s Loan Account	6 000 00
				C s Capital Account	8 307 50
				D s Capital Account	3 897 50
				„ E s Capital Account	2 795 00
	Rs	30 000 00		Rs	30 000 00

[For D s Loan Account see next page]

C s CAPITAL ACCOUNT

		Rs P			Rs P
1965 Dec 31	To Drawings Account— Transfer	1 000 00	1965 Jan 1	By Bank	15 000.00
	, Balance c/d	17 150 00	Dec 31	„ Interest on Capital	750 00
				„ Profit and Loss Account	2 400 00
	Rs	18 150 00		Rs	18 150 00
1966 Dec 31	To Drawings Account— Transfer	1 000 00	1966 Jan 1	By Balance b/d	17 150 00
	„ *Profit and Loss* Account	1 700 00	Dec 31	, Interest on Capital	857 50
	, Balance c/d	15,307 50			
	Rs	18 007.50		Rs	18 007 50
1966 Dec 31	To Realisation Account— ⅓rd share of loss	7 000 00	1966 Dec 31	By Balance b/d	15,307 50
	Bank	8,307 50			
	Rs	15 307.50		Rs	15,307 50

D s CAPITAL ACCOUNT

		Rs P			Rs P
1965 Dec 31	To Drawings Account— Transfer	1 000.00	1965 Jan. 1	By Bank	11 000 00
	„ Balance c/d	12,950 00	Dec. 31	„ Interest on Capital	550 00
				, Profit and Loss Account	2 400 00
	Rs	13,950 00		Rs	13,950 00
1966 Dec. 31	To Drawings Account— Transfer	1 000 00	1966 Jan 1	By Balance b/d	12 950 00
	„ Profit and Loss Account	1 700 00	Dec 31	Interest on Capital	647.50
	„ Balance c/d	10 897 50			
	Rs	13 597 50		Rs	13 597 50
1966 Dec 31	To Realisation Account— ⅓rd share of loss	7 000 00	1966 Dec 31	By Balance b/d	10 897 50
	„ Bank	3 897.50			
	Rs	10 897 50		Rs	10 897 50

D's LOAN ACCOUNT

1966		Rs.	1966		Rs.
Dec. 31	To Bank	6,000	Dec. 31	By Balance	6,000
	Rs.	6,000		Rs.	6,000

E's CAPITAL ACCOUNT

1965		Rs.	1965		Rs.
Dec. 31	To Drawings Account— Transfer	1,000	Jan. 1	By Bank ..	10,000
	„ Balance c/d. ..	11,900	Dec. 31	„ Interest on Capital ..	500
				„ Profit and Loss Account ..	2,400
	Rs.	12,900		Rs.	12,900
1966			1966		
Dec. 31	To Drawings Account— Transfer	1,000	Jan. 1	By Balance b/d. ..	11,900
	„ Profit and Loss Account ..	1,700	Dec. 31	„ Interest on Capital ..	595
	„ Balance c/d. ..	9,795			
	Rs.	12,495		Rs.	12,495
1966			1966		
Dec. 31	To Realisation Account— ⅓rd share of loss ..	7,000	Dec. 31	By Balance b/d. ..	9,795
	„ Bank	2,795			
	Rs.	9,795		Rs.	9,795

Q. 253. *The Balance Sheet of A, B and C stood as follows on 31st December 1966:—*

		Rs.			Rs.
Creditors		17,000	Cash at Bank		6,200
Bills Payable		1,200		Rs.	
			Sundry Debtors ..	20,000	
Capital Accounts :—	Rs.		*Less* Reserve ..	1,000	
A	20,000				19,000
B	20,000		Stock		22,000
C	10,000		Machinery and Plant		15,000
		50,000	Fixtures		1,500
			Goodwill		4,500
	Rs.	68,200		Rs.	68,200

It was decided to sell the business to the X, Y, Z & Co., Ltd., on the Company agreeing to allot 6,000 fully-paid shares of Rs. 10 each in full

satisfaction of the purchase consideration The Company assumed the liabilities except the Bills Payable and took over all the assets excepting the Bank Balance The partners shared profits and losses in proportions of one-half, one third and one-sixth respectively Pass Journal Entries and prepare accounts showing the final settlement as regards the partners, assuming that the shares were duly allotted

A

JOURNAL ENTRIES

		L F	Rs	Rs
Realisation Account	Dr		63 000	
To Sundry Debtors				20 000
„ Stock				22 000
„ Machinery and Plant				15 000
„ Fixtures				1,500
„ Goodwill				4 500
(Being the transfer of the assets taken over by the Company to Realisation Account)				
Sundry Creditors	Dr		17 000	
Reserve for Doubtful Debts			1 000	
To Realisation Account				18 000
(Being the transfer of liabilities taken over to Realisation Account)				
X Y Z & Co Ltd	Dr		60 000	
To Realisation Account				60 000
(Being the purchase consideration due from the Co)				
Shares in X Y Z & Co Ltd	Dr		60 000	
To X Y Z & Co Ltd				60 000
(Being the payment of purchase consideration to us as agreed)				
Realisation Account	Dr		15 000	
To A s Capital Account				7,500
„ B s Capital Account				5 000
„ C's Capital Account				2,500
(Being the transfer of profits on realisation transferred to Partners Capital Accounts)				
Bills Payable	Dr		1 200	
To Bank				*1 200*
(Being the amount paid on meeting our Bills Payable)				
A s Capital Account	Dr		25,380	
B s Capital Account	„		23 080	
C s Capital Account	„		11 540	
To Shares in X Y Z & Co Ltd				60 000
(Being the distribution of shares between the partners)				
A s Capital Account	Dr		2 120	
B s Capital Account	„		1 920	
C s Capital Account	„		960	
To Bank				5 000
(Being the distribution of Bank Balance between the partners)				

REALISATION ACCOUNT

		Rs.		Rs.
To Sundry Assets		63,000	By Sundry Liabilities	18,000
„ Profits transferred to Capital Accounts:—	Rs.		„ X, Y, Z & Co., Ltd.	60,000
A 1/2 ..	7,500			
B 1/3rd ..	5,000			
C 1/6th ..	2,500			
		15,000		
Rs.		78,000	Rs.	78,000

BANK ACCOUNT

	Rs.		Rs.
To Balance b/fd.	6,200	By Bills Payable	1,200
		„ A's Capital Account	2,120
		„ B's „ „	1,920
		„ C's „ „	960
Rs.	6,200	Rs.	6,200

SHARES IN X, Y, Z & CO. LTD. ACCOUNT

	Rs.		Rs.
To X, Y, Z & Co., Ltd.	60,000	By A's Capital Account	25,380
		„ B's „ „	23,080
		„ C's „ „	11,540
Rs.	60,000	Rs.	60,000

A's CAPITAL ACCOUNT

	Rs.		Rs.
To Shares in X, Y, Z & Co., Ltd. ..	25,380	By Balance b/fd.	20,000
„ Bank	2,120	„ Realisation Account— ½ share of profits	7,500
Rs.	27,500	Rs.	27,500

B's CAPITAL ACCOUNT

	Rs.		Rs.
To Shares in X, Y, Z & Co., Ltd. ..	23,080	By Balance b/fd.	20,000
„ Bank	1,920	„ Realisation Account— ⅓rd share of profits	5,000
Rs.	25,000	Rs.	25,000

C's CAPITAL ACCOUNT

	Rs.		Rs.
To Shares in X, Y, Z & Co., Ltd	11,540	By Balance b/fd.	10,000
" Bank	960	" Realisation Account— 1/6th share of profits	2,500
Rs.	12,500	Rs.	12,500

Note—When the final refund of capitals is partly in cash and partly in shares, the distribution should be made in proportion to the capitals.

Q. 254. *The following two firms carrying on separate business decided to amalgamate on the terms as undernoted* —

1. That the new partnership to take over the stock of both the firms at 10% less their book values and that 5% Reserve for Doubtful Debts be created before taking over the Book Debts.

2. That the Leasehold Premises of X and Y be taken over at Rs. 12,000 and the Trade Fixtures of A and B and X and Y be taken over at Rs. 1,500 and Rs. 2,000 respectively.

3. The liabilities of both the firms are taken over *less* 5% Reserve for Discounts.

4. That X and Y who were sharing profits 2/3 and 1/3 should divide between themselves half the share of net profits in the new firm and should contribute Capital of Rs. 30,000 in like proportions.

5. That the firm of A and B (equal partners) be credited with Rs. 10,000 for Goodwill and must provide cash to make their Capital equal to half the joint Capital of the new partnership and take half share in profits.

BALANCE SHEET OF A & B

	Rs.	Rs.		Rs.	Rs.
Creditors		11,000	Cash at Bank		1,500
Capitals—			Debtors	10,000	
A	10,000		*Less* Reserve ..	500	
B	10,000				9,500
		20,000	Stock		18,000
			Trade Fixtures ..		2,000
	Rs.	31,000		Rs.	31,000

BALANCE SHEET OF X & Y

	Rs.	Rs.		Rs.
Creditors		30,000	Cash at Bank	5,500
Capitals—			Debtors	12,000
X	14,000		Stock	15,000
Y	7,000		Trade Fixtures	3,000
		21,000	Leasehold Premises	15,500
	Rs.	51,000	Rs.	51,000

Pass the necessary adjusting entries in the books of both the firms to give effect to the above arrangement and show the necessary Ledger Accounts. Pass Opening Entries in the new Partnership Books and show the opening Balance Sheet.

A.

JOURNAL ENTRIES IN THE BOOKS OF A & B

	L.F.	Rs.	Rs.
Profit and Loss Adjustment Account .. .. Dr.		2,300	
To Stock			1,800
„ Trade Fixtures			500
(Being the amount of Depreciation in the values of the above assets.)			
Reserve for Discounts on Creditors .. .. Dr.		550	
Goodwill .. .. „		10,000	
To Profit and Loss Adjustment Account			10,550
(Being the entry for adjusting Goodwill and Reserve for Discounts on Creditors.)			
Profit and Loss Adjustment Account .. .. Dr.		8,250	
To A's Capital Account			4,125
„ B's „ „			4,125
(Being the transfer of profits to Capital Accounts.)			
Bank Account .. .. Dr.		1,750	
To A's Capital Account			875
„ B's „ „			875
(Being the cash brought in by A & B to make up their Capitals to Rs. 15,000 each.)			

PROFIT AND LOSS ADJUSTMENT ACCOUNT

		Rs.		Rs.
To Stock .		1,800	By Reserve for Discounts on Creditors ..	550
„ Trade Fixtures		500	„ Goodwill .	10,000
„ Profits transferred to Capital Accounts :—	Rs.			
A ½ ..	4,125			
B ½ ..	4,125			
		8,250		
	Rs.	10,550	Rs.	10,550

BANK ACCOUNT

	Rs.		Rs.
To Balance b fd. ..	1,500	By Balance c d. .	3,250
„ A's Capital Account ..	875		
„ B's „ „ ..	875		
Rs.	3,250	Rs.	3,250
To Balance b d. ..	3,250		

A s CAPITAL ACCOUNT

	Rs		Rs.
To Balance c/d	15 000	By Balance b/fd	10 000
		Profit and Loss Adjustment Account—½ share of profits	4 125
		Bank	875
Rs	15 000	Rs	15 000
		By Balance b/fd	15 000

B s CAPITAL ACCOUNT

	Rs		Rs
To Balance c/d	15 000	By Balance b/d	10 000
		Profit and Loss Adjustment Account—½ share of profits	4 125
		„ Bank	875
Rs	15 000	Rs	15 000
		By Balance b/fd	15,000

JOURNAL ENTRIES IN THE BOOKS OF X & Y

		L F	Rs.	Rs
Profit and Loss Adjustment Account	Dr		6 600	
To Stock				1 500
„ Reserve for Doubtful Debts				600
„ Trade Fixtures				1 000
Leasehold Premises				3,500
(Being the entry for writ ng down the values of the above Assets)				
Reserve for Discounts on Creditors	Dr		1 500	
To Profit and Loss Adjustment Account				1 500
(Being the adjusting entry for Reserve for Discounts on Creditors)				
X s Capital Account	Dr		3 400	
Y's „ „			1 700	
To Profit and Loss Adjustment Account				5 100
(Be ng the transfer of Loss to Cap tal Accounts)				
Bank Account	Dr		14 100	
To X s Capital Account				9 400
Y s „ „				4 700
(Being the cash brought in by X & Y to make up their agreed Capitals)				

PROFIT AND LOSS ADJUSTMENT ACCOUNT

	Rs			Rs
To Stock	1 500	By Reserve for D scounts on Creditors		1,500
„ Reserve for Doubtful Debts	600	„ Loss transferred to Cap tal Accounts —	Rs	
„ Trade Fixtures	1 000	X 2/3rds	3 400	
„ Leasehold Premises	3 500	Y 1/3rd	1 700	5 100
Rs	6 600	Rs		6 600

X's CAPITAL ACCOUNT

	Rs.		Rs.
To Profit and Loss Adjustment Account—2/3rds share of loss ..	3,400	By Balance b/fd. ..	14,000
„ Balance c/d. ..	20,000	„ Bank ..	9,400
Rs.	23,400	Rs.	23,400
		By Balance b/d. ..	20,000

Y's CAPITAL ACCOUNT

	Rs.		Rs.
To Profit and Loss Adjustment Account—1/3rd share of loss ..	1,700	By Balance b/fd. ..	7,000
„ Balance c/d. ..	10,000	„ Bank ..	4,700
Rs.	11,700	Rs.	11,700
		By Balance b/d. ..	10,000

BANK ACCOUNT

	Rs.		Rs.
To Balance b/fd. ..	5,500	By Balance c/d. ..	19,600
„ X's Capital Account ..	9,400		
„ Y's „ „ ..	4,700		
Rs.	19,600	Rs.	19,600
To Balance b/d. ..	19,600		

JOURNAL ENTRIES IN THE BOOKS OF THE NEW FIRM

		L.F.	Rs.	Rs.
Cash at Bank	Dr.		3,250	
Sundry Debtors	„		10,000	
Stock	„		16,200	
Trade Fixtures	„		1,500	
Reserve for Discounts on Creditors	„		550	
Goodwill	„		10,000	
To Sundry Creditors				11,000
„ Reserve for Doubtful Debts				500
„ A's Capital Account				15,000
„ B's „ „				15,000
(Being the values of Assets and Liabilities brought in by A and B.)				
Cash at Bank	Dr.		19,600	
Sundry Debtors	„		12,000	
Stock	„		13,500	
Trade Fixtures	„		2,000	
Leasehold Premises	„		12,000	
Reserve for Discounts on Creditors	„		1,500	
To Sundry Creditors				30,000
„ Reserve for Doubtful Debts				600
„ X's Capital Account				20,000
„ Y's „ „				10,000
(Being the values of Assets and Liabilities brought in by X and Y.)				

BALANCE SHEET OF THE NEW FIRM

Liabilities	Rs	Rs	*Assets*	Rs	Rs
Sundry Creditors	41 000		Cash at Bank		22 850
Less Reserve for			Sundry Debtors	22,000	
Discounts	2 050		*Less* Reserve for		
		38 950	Doubtful Debts	1,100	
Capital Accounts —					20,900
A	15 000		Stock		29 700
B	15 000		Trade Fixtures		3 500
X	20 000		Leasehold Premises		12 000
Y	10 000		Goodwill		10 000
		60 000			
	Rs	98 950		Rs	98 950

Q 255 *How should the accounts between the partners be finally adjusted where one of the partner's Capital Account has a debit balance and he is insolvent, and consequently unable to satisfy his indebtedness to the firm?*

A Under such a circumstance, the final adjustment among the partners will have to be made in accordance with the decision in the *Garner* v *Murray* case In this case it was ruled that, in the absence of any agreement *to the contrary, the deficiency on the insolvent partner's* Capital Account must be borne by the other solvent partners in proportion to their capitals, after each solvent partner has brought in cash to the extent of his own share of loss on realisation

In other words it was held in *Garner* v *Murray* that, in the absence of agreement, when the capital account of an insolvent partner is in debit, the *solvent partners must first contribute cash to the extent of their respective* share of loss on realisation, and the balance of cash remaining after paying off the firm's creditors is to be divided amongst the solvent partners in proportion to their capitals The effect of this decision is to distinguish between a loss arising from trading and one arising from a partner failing to make good debit balance on his capital account Thus whereas any loss on trading or even loss arising from realisation must be borne by all the partners *(including the defaulting partner) in the proportions in which the partners* share profits or losses, the loss caused by the deficiency of an insolvent partner must be borne by the remaining partners in proportion to their capitals

Q 256 *A, B and C are partners sharing profits* 1/2, 1/3*rd and* 1/6*th On* 31*st December* 1966, *the following was the Balance Sheet of the firm on which date it was decided to dissolve the partnership —*

BALANCE SHEET

		Rs.		Rs.
Creditors ..		2,500	Cash at Bank ..	2,000
Capital Accounts :—	Rs.		Sundry Assets ..	15,000
A ..	12,000		C's Capital Account ..	3,500
B ..	6,000			
		18,000		
Rs.		20,500	Rs.	20,500

A took over the business, paying Rs. 12,000 for the "Sundry Assets". The Goodwill of the firm was valued at Rs. 6,000. Show the final adjustment amongst the partners, (1) where C is solvent and satisfies his indebtedness, and (2) where C is insolvent and is unable to bring in anything against his deficiency.

A.

(1) Where C is solvent :—

REALISATION ACCOUNT

		Rs.		Rs.
To Sundry Assets .		15,000	By A's Capital Account—Purchase of Assets and Goodwill ..	18,000
„ Profits transferred to Capital Accounts :—	Rs.			
A ..	1,500			
B ..	1,000			
C ..	500			
		3,000		
Rs.		18,000	Rs.	18,000

BANK ACCOUNT

	Rs.		Rs.
To Balance b/fd. ..	2,000	By Creditors ..	2,500
„ A's Capital Account ..	4,500	„ B's Capital Account ..	7,000
„ C's Capital Account ..	3,000		
Rs.	9,500	Rs.	9,500

A's CAPITAL ACCOUNT

		Rs.		Rs.
To Realisation Account :—	Rs.		By Balance b/fd. ..	12,000
Sundry Assets ..	12,000		„ Realisation Account—½ share of profit ..	1,500
Goodwill ..	6,000		„ Bank ..	4,500
		18,000		
Rs.		18,000	Rs.	18,000

B s CAPITAL ACCOUNT

	Rs		Rs.
To Bank	7,000	By Balance b/fd ..	6,000
		„ Realisation Account—1/3rd share of profit	1,000
Rs	7,000	Rs	7,000

C s CAPITAL ACCOUNT

	Rs		Rs
To Balance b/fd	3,500	By Realisation Account—1/6th share of profit .	500
		„ Bank .	3 000
Rs	3,500	Rs	3 500

(2) Where C becomes insolvent —

BANK ACCOUNT

	Rs		Rs
To Balance b/fd	2,000	By Creditors .	2 500
„ A s Capital Account	6,500	„ B s Capital Account ..	6 000
Rs	8,500	Rs.	8,500

A's CAPITAL ACCOUNT

	Rs		Rs
To Realisation Account	18,000	By Balance b/fd ..	12,000
„ C s Capital Account—2/3rds share of deficiency	2 000	„ Realisation Account—½ share of profit .	1,500
		„ Bank ..	6,500
Rs	20 000	Rs	20,000

B s CAPITAL ACCOUNT

	Rs		Rs
To C's Capital Account—1/3rd share of deficiency .	1,000	By Balance b/fd .	6,000
„ Bank .	6,000	„ Realisation Account—1/3rd share of profit	1,000
Rs	7,000	Rs	7,000

C's CAPITAL ACCOUNT

	Rs.		Rs.
To Balance b/fd. ..	3,500	By Realisation Account— 1/6th share of profit ..	500
		„ A's Capital Account—Transfer ..	2,000
		„ B's Capital Account—Transfer ..	1,000
Rs.	3,500	Rs.	3,500

Note:—The point to be noted is that C's Capital deficiency is borne by A and B in proportion to Capitals as they stood prior to any adjustment arising from realisation of the Assets.

Q. 257. *The Balance Sheet of P, Q and R showed as under on the date the partners determined upon dissolution:—*

BALANCE SHEET

	Rs.	Rs.		Rs.	Rs.
Creditors ..		30,000	Cash at Bank ..		5,000
P's Loan Account ..		5,000	Sundry Assets ..		57,000
Capital Accounts:—			Current Accounts:—		
P ..	20,000		Q ..	5,000	
Q ..	10,000		R ..	4,000	
R ..	5,000				9,000
		35,000			
Current Account—P ..		1,000			
Rs.		71,000	Rs.		71,000

The Assets realised Rs. 21,000. Show the final adjustment of Accounts among the partners assuming that Q is insolvent and nothing was obtained from his estate.

A. BANK ACCOUNT

	Rs.		Rs.
To Balance b/fd. ..	5,000	By Sundry Creditors ..	30,000
„ Realisation Account—Assets realised ..	21,000	„ P's Loan Account ..	5,000
„ P's Current Account ..	12,000	„ P's Capital Account ..	15,400
„ R's Current Account ..	12,000		
„ R's Capital Account ..	400		
Rs.	50,400	Rs.	50,400

P's CAPITAL ACCOUNT

	Rs.		Rs.
To Q's Capital Account— 4/5ths share of deficiency ..	5,600	By Balance b/fd. ..	20,000
„ Bank ..	15,400	„ Current Account—Transfer ..	1,000
Rs.	21,000	Rs.	21,000

P's CURRENT ACCOUNT

	Rs.		Rs.
To Realisation Account— 1/3rd share of loss	12,000	By Balance b/fd.	1,000
" P's Capital Account—Transfer	1,000	" Bank	12,000
Rs.	13,000	Rs.	13,000

Q's CAPITAL ACCOUNT

	Rs.		Rs.
To Current Account—Transfer	17,000	By Balance b/fd.	10,000
		" P's Capital Account—Transfer	5,600
		" R's Capital Account—Transfer	1,400
Rs.	17,000	Rs.	17,000

Q's CURRENT ACCOUNT

	Rs.		Rs.
To Balance b/fd.	5,000	By Q's Capital Account—Transfer	17,000
" Realisation Account— 1/3rd share of loss	12,000		
Rs.	17,000	Rs.	17,000

R's CAPITAL ACCOUNT

	Rs.		Rs.
To Q's Capital Account— 1/5th share of deficiency	1,400	By Balance b/fd.	5,000
" R's Current Account—Transfer	4,000	" Bank	400
Rs.	5,400	Rs.	5,400

R's CURRENT ACCOUNT

	Rs.		Rs.
To Balance b/fd.	4,000	By Bank	12,000
" Realisation Account— 1/3rd share of loss	12,000	" Capital Account—Transfer	4,000
Rs.	16,000	Rs.	16,000

Note—As the Capitals are fixed, the share of loss on Realisation is transferred to each partner's Current Account and the corresponding amount brought in by each solvent partner is also credited to his Current Account After the insolvent partner's deficiency is transferred to each solvent partner's

Capital Account in proportion to Capital, the Current Account balance of each solvent partner is transferred to his Capital Account in order to ascertain the amount finally due by the firm to him.

Q. 258. *The Balance Sheet of the firm of X, Y and Z, sharing profits and losses in proportions of 2/5ths, 2/5ths and 1/5th, showed the final position on dissolution thus:—*

BALANCE SHEET

		Rs.			Rs.
X's Capital	..	17,000	Cash	..	6,500
Y's Capital	..	3,000	Realisation Account—Loss	..	15,000
Z's Capital	..	1,500			
	Rs.	21,500		Rs.	21,500

State what the position between the partners would be, assuming that Z is insolvent and is unable to bring in anything in respect of his deficiency.

A.

BANK ACCOUNT

		Rs.			Rs.
To Balance b/fd.	..	6,500	By X's Capital Account	..	15,725
„ X's Capital Account	..	6,000	„ Y's Capital Account	..	2,775
„ Y's Capital Account	..	6,000			
	Rs.	18,500		Rs.	18,500

X's CAPITAL ACCOUNT

		Rs.			Rs.
To Realisation Account— 2/5ths share of loss	..	6,000	By Balance b/fd.	..	17,000
„ Z's Capital Account— 17/20ths share of deficiency	..	1,275	„ Bank	..	6,000
„ Bank	..	15,725			
	Rs.	23,000		Rs.	23,000

Y's CAPITAL ACCOUNT

		Rs.			Rs.
To Realisation Account— 2/5ths share of loss	..	6,000	By Balance b/fd.	..	3,000
„ Z's Capital Account— 17/20ths share of deficiency	..	225	„ Bank	..	6,000
„ Bank	..	2,775			
	Rs.	9,000		Rs.	9,000

Z's CAPITAL ACCOUNT

		Rs.			Rs.
To Realisation Account—1/5th share of loss		3,000	By Balance b/fd.	..	1,500
			" X's Capital Account—Transfer	.	1,275
			" Y's Capital Account—Transfer	.	225
	Rs	3,000		Rs.	3,000

Note—The Loss on Realisation is transferred to the Capital Accounts of the partners in their profit-sharing proportions Each solvent partner then brings in his respective share of such loss The deficiency of the insolvent partner is then borne by the solvent partners in proportions to their Capitals.

Q. 259. *The Balance Sheet of A, B, C and D showed the following position on dissolution —*

BALANCE SHEET

		Rs.			Rs.
Creditors		10,000	Cash at Bank	.	34,000
Capital Accounts —	Rs.		C's Capital Account	..	10,000
A	15,000		D's Capital Account	.	3,000
B	10,000				
		25,000			
Realisation Account—Profit	.	12,000			
	Rs.	47,000		Rs.	47,000

Show the final adjustment among the partners assuming that C is insolvent.

A.

BANK ACCOUNT

		Rs.			Rs.
To Balance b fd.	.	34,000	By Sundry Creditors	..	10,000
			" A's Capital Account	..	13,800
			" B's Capital Account	..	10,200
	Rs.	34,000		Rs.	34,000

A's CAPITAL ACCOUNT

		Rs.			Rs.
To C's Capital Account—3/5ths share of deficiency	..	4,200	By Balance b/fd.	.	15,000
" Bank	. .	13,800	" Realisation Account—¼th share of profit	..	3,000
	Rs.	18,000		Rs.	18,000

B's CAPITAL ACCOUNT

	Rs.		Rs.
To C's Capital Account— 2/5ths share of deficiency ..	2,800	By Balance b/fd. ..	10,000
„ Bank ..	10,200	„ Realisation Account— ¼th share of profit ..	3,000
Rs.	13,000	Rs.	13,000

C's CAPITAL ACCOUNT

	Rs.		Rs.
To Balance b/fd. ..	10,000	By Realisation Account— ¼th share of profit .	3,000
		„ A's Capital Account—Transfer ..	4,200
		„ B's Capital Account—Transfer ..	2,800
Rs.	10,000	Rs.	10,000

D's CAPITAL ACCOUNT

	Rs.		Rs.
To Balance b/fd. ..	3,000	By Realisation Account— ¼th share of profit ..	3,000
Rs.	3,000	Rs.	3,000

Notes:—(a) The partners share the profit on realisation equally in the absence of any agreement to the contrary.

(b) As D's Capital Account showed a debit balance at the date the partners decided to dissolve, he has not to bear any portion of C's deficiency.

(c) C's deficiency on Capital is therefore borne by A & B in proportion to their respective Capitals.

Q. 260. *The Balance Sheet of P, Q and R showed as under upon the dissolution after the whole of the assets were realised:—*

BALANCE SHEET

	Rs.	Rs.		Rs.
Creditors ..		7,000	Cash at Bank ..	40,000
Q's Loan Account ..		4,000	R's Capital Account .	5,000
Capital Accounts :—				
P ..	15,000			
Q ..	10,000			
		25,000		
Realisation Account—Profit ..		9,000		
Rs.		45,000	Rs.	45,000

Show the final settlement between the partners assuming that R is insolvent

A.

P's CAPITAL ACCOUNT

	Rs		Rs
To R's Capital Account— 3/5ths share of deficiency	1,200	By Balance b/fd	15,000
„ Bank	16,800	„ Realisation Account— ⅓rd share of profit	3,000
Rs	18,000	Rs.	18,000

Q's CAPITAL ACCOUNT

	Rs		Rs
To R's Capital Account— 2/5ths share of deficiency	800	By Balance b/fd	10 000
„ Bank	12,200	„ Realisation Account— ⅓rd share of profit	3,000
Rs	13,000	Rs	13,000

R's CAPITAL ACCOUNT

	Rs		Rs
To Balance b/fd	5,000	By Realisation Account— ⅓rd share of profit	3,000
		„ P's Capital Account—Transfer	1,200
		„ Q's Capital Account—Transfer	800
Rs	5,000	Rs	5,000

BANK ACCOUNT

	Rs		Rs
To Balance b/fd	40,000	By Sundry Creditors	7,000
		„ Q's Loan Account	4,000
		„ P's Capital Account	16,800
		„ Q's Capital Account	12,200
Rs	40,000	Rs	40,000

Note:—In this case, the Realisation Account shows a profit which has been transferred to the Capital Accounts of the partners equally in the absence of any agreement to the contrary. It should be noted that the deficiency of R is borne by P and Q in proportions to their respective Capitals as they stood at the date the partners determined upon dissolution and not after the profit on realisation is credited to the Capital Account

Q. 261. *A, B and C as partners in a business decided to dissolve the partnership. After realising the assets and paying off the liabilities, the position of the firm was as under:—*

BALANCE SHEET

		Rs.			Rs.
Capital Accounts—			Cash at Bank	..	33,000
A	..	30,000	C's Capital Account	..	5,000
B	..	20,000	Realisation Account—Loss	..	12,000
	Rs.	50,000		Rs.	50,000

Assuming that C is insolvent and the firm receives 50 P. in the Rupee from his estate, show the final adjustment between the partners.

A.

BANK ACCOUNT

		Rs.			Rs.
To Balance b/fd.	..	33,000	By A's Capital Account	..	27,300
„ A's Capital Account	..	4,000	„ B's „ „	..	18,200
„ B's „ „	..	4,000			
„ C's „ „	..	4,500			
	Rs.	45,500		Rs.	45,500

A's CAPITAL ACCOUNT

		Rs.			Rs.
To Realisation Account—			By Balance b/fd.	..	30,000
1/3rd share of loss	..	4,000	„ Bank—Loss on Realisation	..	4,000
„ C's Capital Account—					
3/5ths share of deficiency	..	2,700			
„ Bank	..	27,300			
	Rs.	34,000		Rs	34,000

B's CAPITAL ACCOUNT

		Rs.			Rs.
To Realisation Account—			By Balance b/fd.	..	20,000
1/3rd share of loss	..	4,000	„ Bank—Loss on Realisation	..	4,000
„ C's Capital Account—					
2/5ths share of deficiency	..	1,800			
„ Bank	..	18,200			
	Rs.	24,000		Rs.	24,000

C s CAPITAL ACCOUNT

	Rs		Rs
To Balance b/fd	5,000	By Bank	4 500
" Realisation Account— 1/3rd share of loss	4 000	, A s Capital Account—Transfer	2,700
		B s " , —Transfer	1,800
Rs	9 000	Rs	9,000

Q 262. *What is the object of Joint Survivorship Assurance and what are the different methods employed for recording the transactions in this connection? What method do you consider to be the best?*

A. With a view to obtain the necessary funds to pay out a deceased partner's share of the Capital accrued profits and Goodwill, partners often assure themselves either jointly or severally, so that the firm's cash resources may not be crippled in case of death of one of the partners

1 The method that is usually followed is to debit the premiums paid to Profit and Loss Account thus treating it as a business expense This cannot be said to be a correct method to follow as it tends to obscure the true resulting profit or loss from the business, for the premium paid on a Joint Policy of the partners cannot in principle be treated as an expense necessarily incurred in course of the conduct of the business Besides, if the annual premium is charged off to revenue each year, there will be no indication on the Balance Sheet as to the existence of an asset which belongs to the firm The objection to this method is, therefore, that it at once falsifies the firm's Profit & Loss Account and the Balance Sheet

2 The other method followed in this connection is to allow the premiums paid as a debit on an account styled Joint Survivorship Assurance Account or Joint Life Policy Account and to show the accumulated debit, year after year, as an Asset in the Balance Sheet This method deserves to be equally deprecated inasmuch as the asset under the heading of Joint Life Policy Account will appear in the Balance Sheet, year after year, at more than its then surrender value, i e its present worth at each balancing period

3 The best method that can be applied in this connection is as follows —

(a) Allow the annual premiums paid to accumulate on Joint Life Policy Account, which will be shown as an asset in the Balance Sheet

(b) At each balancing period, debit Profit & Loss Appropriation Account and credit Joint Life Policy Reserve Account with the amount of the annual premium, in order to maintain the working capital of the firm unaffected

(c) In order to bring down the Joint Policy Account to its surrender value, debit the Joint Life Policy Reserve Account and credit the Joint Life Policy Account with the difference between the debit balance on the latter account and the then surrender value of the policy at the end of each financial year.

(d) The Joint Life Policy Account balance will then appear on the assets side and the Joint Life Policy Reserve Account on the liabilities side, at the same figure.

(e) On the death of one of the partners, the policy amount would be realised and this will be transferred to the Capital Accounts of the partners in their profit-sharing proportions, in the absence of any agreement to the contrary.

(f) The previous balances on the Joint Life Policy Account and the Joint Life Policy Reserve Account will be wiped off by the balance in one account being transferred to the other.

CHAPTER VI

CONSIGNMENT AND JOINT VENTURE ACCOUNTS

Q. 263 *What is a Consignment, and what difference is there between a Consignment and a Sale?*

A. A *Consignment* may be defined as a shipment of goods by a trader to an agent for sale on commission, on the sole risk and account of the former The agent to whom the goods are consigned is known as the *Consignee*, and the principal who sends or consigns goods is called the *Consignor*

The difference between a Consignment and a Sale is as follows —

In case of a sale the legal title to the goods as also the risk attaching to them pass immediately to the purchaser In case of a consignment, the legal ownership in the goods and the risk attaching thereto do not pass to the consignee who acts as a mere agent, but remain vested in the principal, i e the Consignor Thus, when goods are sold, the relationship arising between the purchaser and the seller is that of a debtor and a creditor, whereas when goods are sent by way of consignment, the relationship arising between the consignor and the consignee is that of principal and agent.

Q. 264 *What are Consignment Outwards and Consignment Inwards?*

A The trader who forwards goods to his agent to be sold by the latter on commission knows these goods as a Consignment Outwards, whereas the Agent receiving such shipment for sale on commission on account of his principal will call it his Consignment Inwards

Q. 265. *Describe the procedure usually followed in case of Consignments*

A. The consignor despatches a quantity of goods on his own account and risk to his agent abroad for the purpose of finding fresh markets Along with the goods, a *pro forma* Invoice is forwarded by the consignor to the consignee, giving a description of the goods consigned and stating their cost or minimum sale price The consignee is instructed to sell these goods at as high a price as possible, and in order to induce him to do so, a commission at so much per cent is offered to him on the amount of sale proceeds The consignee is however not supposed to sell the goods below the price shown in the *pro forma* Invoice without previous reference to the consignor In addition to an ordinary selling commission, there is a further remuneration known as *Del Credere* commission which is sometimes paid to him, in return for which the consignee undertakes to bear any loss that might arise from the insolvency of the purchasers of consignment goods.

All necessary expenses in regard to dock dues, unloading, storage and insuring of goods are defrayed by the consignee on account of the consignor, and are deducted by him from the sale proceeds while settling account with the consignor.

From time to time, the consignee renders to the consignor a statement known as an *Account Sales* which sets out particulars of goods sold, the gross proceeds realised, the expenses incurred by the consignee including his commission and the net proceeds.

Usually, the consignee arranges for the consignor to draw a bill on him for a certain sum by way of an advance against the consignment, which on the one hand would serve as a security against the goods lying with the consignee, and on the other, help the consignor financially, as he can realise the bill by discounting it.

Q. 266. *Give the form of Account Sales as would be forwarded by Rustomji & Co., of Rangoon to Kothari & Sons of Bombay for 100 cases of Hardware received ex s.s. "Victoria" with imaginary figures.*

A. Account Sales of 100 cases of Hardware received from Messrs. Kothari & Sons, Bombay, ex s.s. " Victoria ".

Marks	Particulars		Rs.	Rs.
	Sale proceeds of—			
R. & Co.	70 Cases @ Rs. 140	..	9,800	
1/100.	30 ,, @ Rs. 130	..	3,900	13,700
	Less Landing Charges	..	125	
	Cartage	..	30	
	Storage Rent and Insurance	..	75	
	Commission at 5%	..	685	915
	Net Proceeds	=	Rs.	12,785
	Less Amount of Draft accepted as advance against consignment	=	Rs.	7,500
			Total Rs.	5,285

Sight Draft herewith for balance Rs. 5,285, as above.

(Sd.) Rustomji & Co.

Rangoon, 21st March 1967.

Q. 267. *How should Consignment Outwards be recorded in the books of the Consignor?*

A. (1) As the Consignor would be naturally anxious to ascertain how each consignment has resulted, it becomes necessary for him to open a separate Account for each consignment.

(2) Full particulars of the goods relating to each Consignment should first be entered in a Consignment Outwards Book, and each consignment should be known by a serial number for facility of reference

(3) On the goods being despatched, *debit* the particular Consignment Account with the cost of the goods and *credit* "Goods sent on Consignment Account"

(4) In regard to expenses such as freight, insurance, etc, incurred by the consignor on account of the shipment of goods *debit* the particular Consignment Account and *credit* Bank or Creditors

(5) On receipt of Account Sales from the Consignee —

(a) *Debit* the Consignee's Account and *credit* the particular Consignment Account with the *gross proceeds* realised, and

(b) *Debit* the Consignment Account with the expenses incurred by the consignee including his commission, and *credit* the Consignee's Account

(6) If any portion of the Consignment is unsold, the balance will have to be valued at *cost* and brought into record by means of a Journal Entry *debiting* Consignment Stock Account and *crediting* the Consignment Account

(7) The balance on Consignment Account will now represent the profit or loss on the consignment and should be transferred to the Profit and Loss Account

(8) In case of any bill having been drawn by the Consignor on the Consignee and accepted by the latter, the entry would pass through the Bills Receivable Book, from where, the personal account of the Consignee would be credited

(9) The balance, if any, on the Consignee's Account would indicate the amount due from him to the consignor, and the Consignee's Account will be closed on receipt of the remittance from him

(10) The "Goods sent on Consignment Account" will be closed by transfer to the Trading Account

Notes —(a) It must be noted that when goods are sent to an Agent on Consignment Account, the ownership remains with the Consignor, and as the Consignee becomes the Consignor's debtor only when the goods are sold, his account is debited for the first time with the gross proceeds of the sales, on receipt of Account Sales and is credited with his commission and the expenses incurred by him The consignee thus stands debited ultimately with the net amount owing by him.

(b) Although the goods are generally invoiced to the consignee at a certain percentage above cost, the Consignment Account should be debited in the Consignor's books at cost price

Q. 270. *How should the unsold balance of consignment be valued for Balance Sheet purposes?*

A. When the whole of the Consignment Outwards remains unsold at balancing time, the Consignment Account will be closed by balance as above explained, and this balance will appear as an asset in the Balance Sheet

Where a part only of the Consignment is sold, the balance remaining unsold must be valued at actual cost In so ascertaining the cost of the unsold goods, the proportionate freight, insurance, etc incurred by the consignor must be added to the invoice price of the goods Ordinarily, the *unsold balance of consignment must appear in the Balance Sheet at cost*, but, if the sale price is likely to be below cost due to adverse market conditions, the consignment should be valued at the market price Under no circumstance, however, would it be desirable to value unsold consignment at anything above cost While valuing the cost of consignment goods, it is advisable to take into account the expenses incurred by the consignor only and not those incurred by the consignee

Q. 271. *How should Discount on Consignment Bills be dealt with?*

A. Discount on Consignment Bills may preferably be charged to the accounts of the particular consignments in respect of which they were drawn rather than being debited to Discount Account in the usual way

Q. 272. *What adjustment is necessary at balancing periods, when the goods are charged to the Consignment Account at* pro forma *prices including an additional percentage over the cost price?*

A. When goods are charged to the Consignment Account at *pro forma* Invoice prices including a percentage above cost, the effect of such a procedure would be to take credit in the books for profit before it is realised, and as the credit in this respect will be given to Goods sent out on Consignment Account which is closed by transfer to the Trading Account, the gross profit for trading would be unduly inflated Besides, if the Consignment Account stands debited with anything beyond the actual cost of the goods and the expenses, it will fail in its object of signifying the true profit or loss made thereon Evidently, therefore, an adjusting entry will be needed at each balancing time, in order to set right the excess debit on the consignment account and the corresponding excess credit on the Goods sent out on Consignment Account The entry will be to debit the Goods sent on Consignment Account and to credit the Consignment Account with the amount charged to the Consignment Account in excess of the actual cost of the goods consigned

Q. 273.

1966			Rs. P.
June 25	Roy & Co. of Calcutta send a Consignment of 100 sewing machines ex s.s. "India" to Tagore & Sons of Karachi with *pro forma* invoice amounting to cost. to		4,000.00
,, ,,	They also paid freight and insurance thereon		500.00
July 5	Tagore & Sons receive the goods and pay:—	Rs. P.	
	Landing Charges	75.00	
	Cartage and Rent of Storage	110.50	
			185.50
July 15	Roy & Co. receive acceptance from Tagore & Sons of a draft of Rs. 2,500 against consignment.		
Aug. 15	Tagore & Sons sell the entire lot and realise		7,500.00
,, ,,	They incur Sale Expenses amounting to		200.00
Sept. 1	They send their Account Sales and a Sight Draft for the balance due to Roy & Co., after deducting their commission @ 7½% on the gross proceeds.		
Sept. 10	Roy & Co. receive the Account Sales and the Sight Draft.		

Enter the above transactions in the books of Roy & Co., the Consignors, and Tagore & Sons, the Consignees.

A. *IN THE BOOKS OF THE CONSIGNORS*

JOURNAL ENTRIES

1966		L.F.	Rs.	Rs.
June 25	Consignment Account .. .. .. Dr.		4,000	
	To Goods sent out on consignment			4,000
	(Being the cost of goods consigned to Tagore & Sons of Karachi.)			
,, ,,	Consignment Account .. .. .. Dr.		500	
	To Bank			500
	(Being the freight and insurance paid thereon.)			
July 15	Bills Receivable Account .. .. .. Dr.		2,500	
	To Tagore & Sons			2,500
	(Being the acceptance by them of the bill drawn against consignment.)			
Sept. 10	Tagore & Sons .. .. .. Dr.		7,500	
	To Consignment Account			7,500
	(Being the gross proceeds of sales effected by them as per their Account Sales.)			
,, ,,	Consignment Account .. .. .. Dr.		948	
	To Tagore & Sons			948
	(Being the expenses incurred by them and their Commission on gross proceeds as under:— Rs. P. Landing Charges .. .. 75.00 Cartage and Storage Rent .. .. 110.50 Sales Expenses .. .. 200.00 Commission @ 7½% .. .. 562.50 Rs. 948.00			

JOURNAL ENTRIES—*contd*

			L F	Rs	Rs
1966 Sept 10	Bank Account To Tagore and Sons (Being the Sight Draft received from them for the balance)	Dr		4 052	4 052
„	Consignment Account *To Profit and Loss Account* (Being the transfer of profit on consignment)	Dr		2 052	2 052

CONSIGNMENT ACCOUNT

1966		Rs P	1966		Rs P
June 25	To Goods	4 000 00	Sept 10	By Tagore & Sons—Sales	7 500 00
„ „	„ Bank—Freight etc	500 00			
Sept 10	„ Tagore & Sons—				
	Landing Charges	75 00			
	Cartage	110 50			
	Sales Expenses	200 00			
	Commission	562.50			
	Profit and Loss Account— Net gain transferred	2 052 00			
	Rs	7 500 00		Rs	7 500 00

TAGORE & SONS ACCOUNT

1966		Rs P	1966		Rs P
Sept 10	To Consignment Account—Sales	7 500 00	July 15	By Bills Receivable	2,500 00
			Sept 10	„ Consignment A/c —	
				Landing Charges	75 00
				Cartage	110 50
				Sales Commission	200 00
				Commission	562 50
				Bank	4 052.00
	Rs	7 500 00		Rs	7 500 00

IN THE BOOKS OF THE CONSIGNEES

JOURNAL ENTRIES

1966			L.F	Rs P	Rs P
July 5	Roy & Co To Bank (For Landing Charges Rs 75 and Cartage and Storage Rent Rs. 110 50 P paid on account of their consignment)	Dr		185 50	185 50
„ „	Roy & Co To Bills Payable Account (Being the acceptance of their Bill against consignment)	Dr		2 500 00	2,500 00
Aug 15	Bank To Roy & Co (Being the gross sale proceeds of consignment goods)	Dr		7,500 00	7,500 00

JOURNAL ENTRIES—*contd.*

			L.F.	Rs. P.	Rs. P.
5	Roy & Co. .. .. Dr.			762.50	
	To Bank				200.00
	„ Commission Account				562.50
	(Being the amount paid for sales expenses and our commission on gross sales @ 7½%.)				
1	Roy & Co. .. .. Dr.			4,052.00	
	To Bank				4,052.00
	(Being the amount of Sight Draft remitted to them in final settlement.)				

ROY & CO.'s ACCOUNT

		Rs. P.	1966		Rs. P.
66			Aug. 15	By Bank—Sale Proceeds ..	7,500.00
5	To Bank—Landing Charges	75.00			
	„ Bank—Cartage ..	110.50			
	„ Bills Payable ..	2,500.00			
. 15	„ Bank—Sales Expenses ..	200.00			
	„ Commission Account ..	562.50			
t. 1	„ Bank—Sight Draft .	4,052.00			
	Rs.	7,500.00		Rs.	7,500.00

Q. 274. *A. Alam of Ceylon consigned goods to B. Badsha of ultan of the value of Rs. 5,000 and invoiced the same pro forma at) p.c. above cost plus freight, etc. He paid thereon Rs. 120 for eight and cartage, and Rs. 80 for Insurance. He drew on B. adsha for Rs. 2,000 as advance against consignment and sold the ill for Rs. 1,950. He received Account Sales showing that three-ourths of the goods were sold for Rs. 5,200, and Badsha's expenses mounted to Rs. 175 and his commission to Rs. 300. The unsold stock vas valued at actual cost and a two months' draft was received from Badsha in settlement of account to date.*

Show the transactions in the books of both the parties, assuming that the original entry in the books of the consignor was made with the pro forma invoice price.

A. IN THE BOOKS OF THE CONSIGNOR

JOURNAL ENTRIES

	L.F.	Rs.	Rs.
Consignment Account .. .. .. Dr.		6,000	
To Goods sent on Consignment Account			6,000
(Being the cost of the goods plus 20 per cent.)			
Consignment Account .. .. .. Dr.		200	
To Bank			200
(Being the payment of freight and insurance.)			

JOURNAL ENTRIES—*contd*

		L.F	Rs	Rs.
Bills Receivable Account To B Badsha (Being the acceptance received from him)	Dr		2 000	2,000
Bank Account Consignment Account To Bills Receivable Account (Being the discounting of Bill Receivable.)	Dr "		1 950 50	2 000
B Badsha To Consignment Account (Being the gross proceeds of consignment as per Account Sales.)	Dr		5,200	5,200
Consignment Account To B Badsha (*Being the expenses and commission of the consignee as per Account Sales*)	Dr		475	475
Bills Receivable Account To B Badsha (Being the amount of the Bill received in settlement of account to date)	Dr		2,725	2,725
Goods sent out on Consignment Account To Consignment Account (Being the entry for adjusting the excess of 20% over the cost of the goods included in the debit to Consignment Account.)	Dr		1 000	1 000
Consignment Stock Account To Consignment Account (Being the actual cost of the unsold stock valued at invoice price of the goods plus proportionate expenses of the consignor)	Dr		1 300	1,300
Consignment Account To Profit and Loss Account (Being the transfer of profit on consignment.)	Dr		775	775

CONSIGNMENT ACCOUNT

	Rs.		Rs
To Goods sent out on Consignment Account	6 000	By B Badsha—Gross Proceeds	5,200
" Bank—Freight and Insurance	200	" Goods sent out on Consignment Account	1,000
" Bills Receivable—Discount	50	" Consignment Stock	1,300
" B Badsha—Expenses and Commission	475		
" Profit—transferred to Profit and Loss Account	775		
Rs.	7,500	Rs.	7,500

GOODS SENT OUT ON CONSIGNMENT ACCOUNT

	Rs.		Rs.
To Consignment Account	1,000	By Consignment Account	6,000
„ Trading Account—Transfer ..	5,000		
Rs.	6,000	Rs.	6,000

B. BADSHA's ACCOUNT

	Rs.		Rs.
To Consignment Account	5,200	By Bills Receivable Account ..	2,000
		„ Expenses and Commission ..	475
		„ Bills Receivable Account ..	2,725
Rs.	5,200	Rs.	5,200

CONSIGNMENT STOCK ACCOUNT

	Rs.		Rs.
To Consignment Account	1,300	By Balance c/d.	1,300
Rs.	1,300	Rs.	1,300
To Balance b/d.	1,300		

IN THE BOOKS OF THE CONSIGNEE

JOURNAL ENTRIES

		L.F.	Rs.	Rs.
A. Alam	Dr.		2,000	
To Bills Payable Account				2,000
(Being the acceptance of Bill drawn against consignment.)				
Bank Account	Dr.		5,200	
To A. Alam				5,200
(Being the gross proceeds of sales.)				
A. Alam	Dr.		475	
To Bank				175
„ Commission				300
(Being the Sales Expenses and Commission.)				
A. Alam	Dr.		2,725	
To Bills Payable Account				2,725
(Being the acceptance of draft for the balance.)				

A ALAM s ACCOUNT

	Rs		Rs
To Bills Payable Account	2 000	By Bank—Gross Proceeds	5,200
" Bank—Sales Expenses	175		
, Commission	300		
" Bills Payable Account	2 725		
Rs.	5,200	Rs	5,200

Q 275 *What is a Joint-Venture and how are Joint-Venture Accounts maintained?*

A A joint venture is practically a partnership between two or more persons confined to a particular venture or piece of business The venture may take the shape of a joint consignment of goods a speculation in shares, an underwriting of shares or debentures of a new undertaking or any other similar form of enterprise

Where the buying and selling on account of joint-venture is managed by one of the parties all the transactions are recorded at the place of business The amount contributed by each party is credited to his personal account A Joint-Venture Account is opened and debited with the cost of the goods purchased and all the expenses relating to the venture The same is credited with the sale proceeds and closing stock, the difference representing profit or loss on the venture The share of profit or loss of each party is credited or debited to his personal account and final remittance to or from each party will close all the personal accounts

Where a separate set of books is maintained and a Joint Bank Account is opened, the record of transactions does not differ in any way from ordinary partnership transactions Each partner s Capital is credited with his respective contribution and the profit or loss arising from the venture is divided in agreed proportions

Where the transactions are effected by different parties to the venture, no separate set of books is maintained and no Joint Banking Account is opened Each party would then record into his own books the transactions that he has entered into on account of the joint venture On completion of the venture, each party would render an account of the transactions effected by him to enable a Joint-Venture Account to be prepared by all the parties in their respective books. On the final result being ascertained each party will debit or credit the Joint Venture Account in his own books with his own share of the profit or loss and transfer the same to his Profit & Loss Account The share of profit or loss belonging to the other parties to the venture will be credited or debited to their respective personal accounts The balance on the personal accounts of the other parties will then indicate their relative position with each other

Q. 276. *Sirdar & Sons bought goods of the value of Rs. 7,500 and consigned them to Thacker & Co., to be sold by them on a joint-venture, profits being divided in two-thirds and one-third. They also paid Rs. 550 for freight and insurance and cartage, and drew on Thacker & Co., for Rs. 3,000 on account. The bill was discounted by Sirdar & Sons for Rs. 2,900. Thacker & Co., paid Rs. 300 for Dock Dues, Storage Rent, etc. The sales realised Rs. 12,500 and the Sales Expenses Rs. 250 were defrayed by Thacker & Co. The latter forwarded a sight draft for the balance due to Sirdar & Sons after charging their sales commission at 5% on the gross proceeds.*

Write up the accounts in the books of both the parties. No interest need be brought into account.

A. *IN THE BOOKS OF SIRDAR & SONS*

JOINT ACCOUNT WITH THACKER & CO.

		Rs. P.		Rs. P.
To Bank—Cost of Goods ..		7,500.00	By Thacker & Co.—Sale Proceeds ..	12,500.00
" " —Freight, Insurance, etc. ..		550.00		
" " —Discount on Bills Receivable ..		100.00		
" Thacker & Co.:—	Rs.			
Dock Dues & Storage Rent ..	300			
Sales Expenses ..	250			
Commission ..	625			
		1,175.00		
" Profit and Loss Account—2/3rds share ..		2,116.67		
" Thacker & Co.—1/3rd share ..		1,058.33		
Rs.		12,500.00	Rs.	12,500.00

THACKER & CO.

	Rs. P.			Rs. P.
To Joint Account—Sale Proceeds ..	12,500.00	By Bills Receivable Account ..		3,000.00
		" Joint Account—	Rs.	
		Dock Dues & Storage Rent ..	300	
		Sales Expenses ..	250	
		Commission ..	625	
				1,175.00
		" Joint Account—1/3rd share ..		1,058.33
		" Bank—Sight Draft ..		7,266.67
Rs.	12,500.00	Rs.		12,500.00

IN THE BOOKS OF THACKER & CO

JOINT ACCOUNT WITH SIRDAR & SONS

		Rs P		Rs P
To Sirdar & Co —			By Bank—Sale Proceeds	12,500 00
Cost of Goods		7,500 00		
Freight, Insurance, etc		*550 00*		
„ Discount on Bills Receivable		100 00		
„ Bank —				
Dock Dues & Storage	Rs			
Rent	300			
Sales Expenses	250			
		550 00		
„ Commission		*625 00*		
„ Profit & Loss Account—				
1/3rd share		1 058.33		
„ Sirdar & Co —2/3rds share		2,116 67		
Rs		12,500 00	Rs	12,500 00

SIRDAR & SONS

	Rs P		Rs P
To Bills Payable Account	3 000 00	By Joint Account—	
„ Bank—Sight Draft	7,266 67	Cost of Goods	7,500 00
		„ Joint Account—	
		Freight, Insurance, etc	550 00
		„ Discount on Bills Receivable	100 00
		„ Joint Account—	
		2/3rds share	2,116 67
Rs	10,266 67	Rs	10 266 67

Q. 277. *J Jones, A Armstrong and B Black enter into a joint-venture to divide profits equally They bought goods from C Smart & Co, for Rs* 12,500 *and from J Jones for Rs* 2,500 *Jones contributed Rs* 3,000, *Armstrong Rs* 4,000 *and Black Rs* 9,000 *which amounts were banked in a Joint Account They settled their account with Smart & Co by cheque and paid for carriage and other expenses Rs* 750 *They sold goods for cash Rs* 6,500 *and to Smith & Son on credit for Rs* 14,000, *who accepted draft for the amount The acceptance was cashed and realised Rs* 13,700 *J Jones was allowed* 5% *commission on sales for effecting the transactions*

Pass Journal Entries and open the necessary accounts, assuming that final settlement between the parties was made by cheques

JOURNAL ENTRIES

	L.F.	Rs. P.	Rs. P.
Joint Account .. .. .. Dr.		15,000.00	
To C. Smart & Co.			12,500.00
„ J. Jones' Capital Account			2,500.00
(Being the cost of credit purchase of the goods.)			
Bank Account .. .. .. Dr.		16,000.00	
To J. Jones' Capital Account			3,000.00
„ A. Armstrong's Capital Account			4,000.00
„ B. Black's Capital Account			9,000.00
(Being the amount of Capital contributed by partners.)			
C. Smart & Co. .. .. .. Dr.		12,500.00	
To Bank			12,500.00
(Being the payment to C. Smart on account.)			
Joint Account .. .. .. Dr.		750.00	
To Bank			750.00
(Being the payment of carriage and other expenses.)			
Bank Account .. .. .. Dr.		6,500.00	
Smith & Son .. .. .. „		14,000.00	
To Joint Account			20,500.00
(Being the amount of cash and credit sale proceeds.)			
Bills Receivable Account .. .. .. Dr.		14,000.00	
To Smith & Son			14,000.00
(Being the acceptance of our Bill by Smith & Son.)			
Bank Account .. .. .. Dr.		13,700.00	
Discount .. .. .. „		300.00	
To Bills Receivable Account			14,000.00
(Being the amount realised on discounting the bill.)			
Joint Account .. .. .. Dr.		300.00	
To Discount			300.00
(Being the transfer of discount to Joint Account.)			
Joint Account .. .. .. Dr.		1,025.00	
To J. Jones' Capital Account			1,025.00
(Being 5% Commission on sales payable to J. Jones as agreed credited to his account.)			
Joint Account .. .. .. Dr.		3,425.00	
To J. Jones' Capital Account			1,141.67
„ A. Armstrong's Capital Account			1,141.67
„ B. Black's „ „			1,141.66
(Being the transfer of profits on joint venture to parties' Capital Accounts in their profit-sharing proportions.)			
J. Jones' Capital Account .. .. .. Dr.		7,666.67	
A. Armstrong's Capital Account .. .. .. „		5,141.67	
B. Black's „ „ .. .. „		10,141.66	
To Bank			22,950.00
(Being the withdrawal by partners of the amounts standing to their respective Capital Accounts.)			

JOINT ACCOUNT

		Rs		Rs
To C Smart and Co —Cost of goods		12,500	By Bank—Sale proceeds	6 500
" J Jones—cost of goods		2,500	" Smith and Son—Sale proceeds	14 000
" Bank—Carriage, etc		750		
" Discount		300		
" J Jones' Capital Account— 5% Commission on Sales		1,025		
" Profits transferred—	Rs P			
J Jones 1/3rd share	1,141 67			
A Armstrong ⅓rd share	1,141 67			
B Black ⅓rd share	1,141 66			
		3 425		
Rs		20,500	Rs	20,500

BANK ACCOUNT

	Rs P		Rs P.
To J Jones' Capital Account	3 000 00	By C Smart	12,500 00
" A. Armstrong s Capital Account	4,000 00	" Joint Account—Expenses	750 00
" B Black's Capital Account	9 000 00	" J Jones' Capital Account	7,666 67
" Joint Account	6 500 00	" A Armstrong's Capital Account	5,141 67
" Bills Receivable Account	13,700 00	" B Black's Capital Account	10,141 66
Rs	36,200 00	Rs	36,200 00

J JONES CAPITAL ACCOUNT

	Rs P		Rs P
To Bank	7,666 67	By Joint Account—Goods	2,500 00
		" Joint Account—Commission	1,025 00
		" Joint " ⅓rd share of profit	1,141 67
		" Bank	3,000 00
Rs	7,666 67	Rs	7,666 67

A ARMSTRONG s CAPITAL ACCOUNT

	Rs P		Rs P.
To Bank	5,141 67	By Bank	4 000 00
		" Joint Account—1/3rd share of profit	1,141 67
Rs	5,141 67	Rs	5,141 67

B. BLACK's CAPITAL ACCOUNT

	Rs. P.		Rs. P.
To Bank ..	10,141.66	By Bank ..	9,000.00
		„ Joint Account— 1/3rd share of profit ..	1,141.66
Rs.	10,141.66	Rs.	10,141.66

Q. 278. *X and Y entered into a speculative venture of underwriting the subscription at par of the entire share capital of the Copper Mines Ltd., consisting of 10,000 shares of Rs. 10 each and to pay all expenses upto allotment. The profits were to be shared by them in proportions of 3/5ths and 2/5ths. The consideration in return for this guarantee was 1,200 other shares of Rs. 10 each fully paid to be issued to them. X provided the funds for Registration Fees, Rs. 1,200, Advertising Rs. 1,100, for printing and distribution of Prospectus Rs. 750 and other printing and stationery Rs. 200. Y contributed towards payment of Office Rent Rs. 300, Legal Charges Rs. 1,375, Clerical Staff Rs. 900 and other petty disbursements Rs. 175. The prospectuses were issued and the applications fell short of the full issue by 1,500 shares. X took these over on joint account and paid for the same in full. They received the 1,200 fully-paid shares as underwriting commission. They sold their entire holding at Rs. 12.50 P. less 50 P. per share for brokerage. The net proceeds were received by X for 1,500 shares and Y for 1,200 shares. Write out the necessary accounts in the books of both the parties, showing the final adjustment.*

A.

IN X's LEDGER

Y's ACCOUNT

	Rs.		Rs.
To Joint Account— Sale proceeds of 1,200 shares ..	14,400	By Joint Account—Office Rent ..	300
		„ Joint Account—Legal charges ..	1,375
		„ Joint Account—Clerical Staff ..	900
		„ Joint Account—Petty Payments ..	175
		„ Joint Account—2/5ths share of profit ..	4,560
		„ Bank	7,090
Rs.	14,400	Rs.	14,400

JOINT ACCOUNT WITH Y

	Rs		Rs
To Bank —		By Bank—Sale proceeds of 1,500 shares at Rs 12 50 P. *less* 50 P brokerage	18,000
Registration Fees	1,200	„ Y s Account—Sale proceeds of 1,200 shares at Rs 12 50 P each *less* 50 P brokerage	14,400
Advertising	1,100		
Printing and Distribution of Prospectuses	750		
Printing and Stationery	200		
„ Y s Account —			
Office Rent	300		
Legal Charges	1 375		
Clerical Staff	900		
Petty Payments	175		
„ Bank —			
Cost of 1,500 shares of Rs 10 *each fully paid*	15 000		
, Profit & Loss A/c —3/5ths share	6,840		
, Y's Account—2/5ths share	4,560		
Rs	32,400	Rs	32 400

IN Y s LEDGER

JOINT ACCOUNT WITH X

	Rs		Rs
To Bank —		By Bank Account—	
Office Rent	300	Sale proceeds of 1,200 shares at Rs 12 50 P *less* 50 P. brokerage ..	14,400
Legal Charges	1,375	„ X's Account —	
Clerical Staff	900	Sale Proceeds of 1,500 shares at Rs 12 50 P per share *less* 50 P brokerage .	18,000
Petty Payments	175		
„ X's Account —			
Registration Fees	1,200		
Advertisement Charges	1,100		
Printing of Prospectus	750		
Printing & Stationery	200		
Cost of 1 500 shares of Rs 10 each fully paid up	15,000		
„ Profit & Loss Account—2/5ths share	4,560		
„ X's Account—3/5ths share	6,840		
Rs	32,400	Rs.	32,400

X's ACCOUNT

	Rs		Rs
To Joint Account—Sale proceeds of 1,500 shares .	18 000	By Joint Account —	
„ Bank	7,090	Registration fees .	1,200
		Advertising charges	1,100
		Printing and Distribution of Prospectus .	750
		Printing and Stationery	200
		Cost of 1,500 shares .	15,000
		3/5ths share .	6 840
Rs	25,090	Rs	25,090

Q. 279. *What is an Account Current and by whom is such an Account rendered?*

A. An Account Current is a statement, in debit and credit form, recording the transactions between two parties during a particular period, interest usually being calculated on each item at an agreed rate and included in the account. It is usually rendered by (1) one dealer to another or (2) by a banker and his client, or (3) by an agent to his principal or (4) by a consignee to his consignor.

Q. 280. *Describe the several methods of calculating Interest in Accounts Current.*

A. The following are the various methods of calculating Interest in Accounts Current:—

(1) **By Tables.** Interest is calculated by Tables, on each item separately, from the due date of each transaction to the end of period of the account. The Interest Columns on both sides of the account are then added and the balance is carried out into the Principal Column.

(2) **By Products.** This system consists in multiplying each amount by the number of days it has to run for interest, each such product being placed in the Product Column against the item. The Product Columns are then balanced, and the interest on the balance of the product is extended into the account. The interest is ascertained by the following formula:—

$$\text{Interest} = \frac{\textit{Balance of Products} \times \textit{Rate}}{365 \times 100}$$

(3) **By Interest Numbers.** This method represents a slight variation of the Product Method and is sometimes called the English Method although it is also extensively used on the Continent. It consists in dividing each product by 100, and the resulting figure is placed against each item in the column headed Interest Numbers. The Number Columns are then balanced, and the Interest on the balance of numbers is extended into the account. In this case, the Interest is ascertained by the following formula:—

$$\text{Interest} = \frac{\textit{Balance of Numbers} \times \textit{Rate}}{365}$$

Q. 281. *How is an Account Current headed, and how are the days accounted for the purpose of Interest?*

A. (a) An Account Current is really a copy of the Ledger Account of the opposite party in the books of the person rendering such account. The person rendering the account is the one who is last named at the head of the Account. Thus, "P. Pavri in Account Current with C. Donald" would mean that the latter is rendering the account to P. Pavri from the transactions as recorded in his (C. Donald's) books.

(b) In calculating days for the purpose of interest, it is usual to calculate one end day and not both The day on which the transaction took place is generally ignored Where, however, the Account Current commences with an opening balance, the opening date will have to be counted as it would represent the balance that existed on the previous day When goods are sold under an arrangement that payment shall be due on a certain subsequent date, the number of days must be calculated from the latter date and not the date of the transaction

Q. 282. *The following transactions took place between R Vinayak and P Basu from 1st January to 30th June 1967 —*

1967			Rs
Jan	1	Sold goods to P Basu	1,120
„	10	Received his acceptance at 2 months for	500
Feb	15	Cash received from P Basu	600
Mar	2	Bought goods of P Basu	2,750
„	3	Accepted P Basu s draft at 1 month for	1,000
April	11	Cash paid to P Basu	1 000
,	30	Goods sold to P Basu, due end of May	1,200
May	11	Bought goods from P Basu	750
„	31	Sold goods to P Basu, due 10th June	1,100
June	15	Bought goods from P Basu	1,500

You are required to make out an Account Current to be rendered by R Vinayak as at 30th June 1967, taking Interest into account at 5% per annum, and showing the actual working under each of the usual three methods

[*For Answer see pp 279-80*]

Q. 283. *Describe what you understand by the Average Due Date.*

A. Average Due Date means an equated date on which a payment may be made in one single amount in place of several amounts due for payment on different dates

The following is the method of ascertaining the average due date.—

(1) Take the first due date of the transactions as the starting point

(2) Calculate the number of days from the starting point to the due date of each transaction

(3) Multiply the amount of each transaction by its number of days from the starting point

(4) Divide the total of the products by the total amount of the transactions

(5) The result will be the number of days of the average due date from the starting point.

FIRST METHOD:—Interest is here calculated, on each item separately, from the date of each transaction to the end of period of account.

P. BASU in Account Current with R. VINAYAK

Date	Particulars	Days	Interest	Amount	Date	Particulars	Days	Interest	Amount
1967			Rs. P.	Rs. P.	1967			Rs. P.	Rs. P.
Jan. 1	To Goods	181	27.77	1,120.00	Jan. 10	By Bill Receivable due Mar. 13 ..	109	7.46	500.00
Mar. 3	„ Bill Payable due April 6 ..	85	11.64	1,000.00	Feb. 15	„ Cash	136	11.18	600.00
Apr. 11	„ Cash	80	10.96	1,000.00	Mar. 2	„ Goods	120	45.21	2,750.00
„ 30	„ Goods due May 31	30	4.93	1,200.00	May 11	„ Goods	50	5.13	750.00
May 31	„ Goods due June 10	20	3.01	1,100.00	June 15	„ Goods	15	3.08	1,500.00
June 30	„ Interest			58.31	„ 30	„ Interest			72.06
„ 30	„ Balance c/d.			693.75					
		Rs.	58.31	6,172.06			Rs.	72.06	6,172.06
					June 30	By Balance b/d.			693.75

SECOND METHOD:—Interest is here calculated on Balance of Products.

P. BASU in Account Current with R. VINAYAK

Date	Particulars	Amount	Days	Products	Date	Particulars	Amount	Days	Products
1967		Rs. P.			1967		Rs. P.		
Jan. 1	To Goods	1,120.00	181	2,02,720	Jan. 10	By Bill Receivable due March 13 ..	500.00	109	54,500
Mar. 3	„ Bill Payable due April 6 ..	1,000.00	85	85,000	Feb. 15	„ Cash	600.00	136	81,600
Apr. 11	„ Cash	1,000.00	80	80,000	Mar. 2	„ Goods	2,750.00	120	3,30,000
„ 30	„ Goods due May 31	1,200.00	30	36,000	„ 11	„ Goods	750.00	50	37,500
May 31	„ Goods due June 10	1,100.00	20	22,000	June 15	„ Goods	1,500.00	15	22,500
June 30	„ Balance of Products ..			1,00,380	„ 30	„ Interest on balance of Products $\frac{1,00,380 \times 5}{365 \times 100}$ or $\frac{1,00,380 \times 10}{73,000}$	13.75		
„ 30	„ Balance c/d.	693.75							
	Rs.	6,113.75		5,26,100		Rs.	6,113.75		5,26,100
					June 30	By Balance b/d.	693.75		

THIRD METHOD —Interest is here calculated on the method known as the "English Method". It is only a slight variation of the Product Method consisting in dividing each product by 100 the resulting figures being styled Interest Numbers

P BASU in Account Current with R VINAYAK

Date	Particulars	Amount	Days	Interest Numbers	Date	Particulars	Amount	Days	Interest Numbers
1967		Rs P			1967		Rs P		
Jan 1	To Goods	1,120 00	181	2,027	Jan 10	By Bill Receivable due March 13	500 00	109	545
Mar 3	„ Bill payable due April 6	1,000 00	85	850	Feb 15	„ Cash	600 00	136	816
Apr 11	„ Cash	1 000 00	80	800	Mar 2	„ Goods	2,750 00	120	3,300
„ 30	„ Goods due May 31	1,200 00	30	360	„ 11	„ Goods	750 00	50	375
May 31	„ „ „ June 10	1,100 00	20	220	June 15	„ Goods	1,500 00	15	225
June 30	„ Balance of numbers			1,004	„ 30	Interest on balance of Numbers $\frac{1,004 \times 5}{365}$ or $\frac{1,004 \times 10}{730}$	13 75		
„ 30	„ Balance c/d	693 75							
	Rs	6,113 75		5,261		Rs	6,113 75		5,261
					June 30	By Balance b/d.	693 75		

Q. 284. *A trader having accepted the following several Bills falling due on different dates, now desires to have these Bills cancelled and to accept a new Bill for the whole amount payable on the average due date. You are required to find that date.*

The Bills are:—

			Rs.			
1.	March	1	400	due	May	4th.
2.	„	10	300	„	June	13th.
3.	April	5	200	„	June	8th.
4.	„	20	375	„	May	23rd.
5.	May	10	500	„	July	13th.

A. The starting point is 4th May.

The number of days of each transaction from the starting point is as under:—

1.	4th	May	to	4th	May	=	0
2.	4th	May	to	13th	June	=	40
3.	4th	May	to	8th	June	=	35
4.	4th	May	to	23rd	May	=	19
5.	4th	May	to	13th	July	=	70

400	×	0	=	0
300	×	40	=	12,000
200	×	35	=	7,000
375	×	19	=	7,125
500	×	70	=	35,000
1,775			)	61,125 = 34 days.

∴ the average due date is = 7th June.

CHAPTER VII

ACCOUNTS OF JOINT STOCK COMPANIES

Q. 285. *What is a Joint Stock Company?*

A. A Joint Stock Company is an association of persons carrying on trade or business for purposes of profit, possessing a common capital divided into shares which are held by the members in any proportions and which are transferable

Q. 286. *What are the principal points of difference between a Joint Stock Company and an ordinary Partnership?*

A. (1) In a limited company, the liability of each shareholder is limited to the amount of the shares which he has agreed to contribute to its capital, in a partnership, every partner is liable jointly and severally to an unlimited extent for the whole of the debts of the firm incurred during the time that he is a partner

(2) In a partnership, the number of members must not exceed twenty in any business, and ten in case of banking In a limited company there is no such limit, except that in a public company there must not be less than seven persons and in a private one, not less than two

(3) In a public company, shares are transferable without the consent of the other members, whereas in a partnership this is not possible

(4) In a partnership, every member can take part in the management, and the acts of any partner within the scope of the partnership business are binding on the firm, in a company the management is placed in the hands of a special body of shareholders called directors, and a shareholder cannot bind his company by his acts

(5) In a partnership, the creditors of the firm can proceed against the partnership property and also against the private property of each individual partner in case of necessity. In a company, the creditors cannot look to its members for payment but must look to the assets of the company and the uncalled capital for the satisfaction of their claims

(6) In a partnership, the rights of members, as originally agreed upon, may be altered at any time by mutual consent of the partners The powers of a company are governed by the Memorandum of Association which cannot be altered without the consent of the Court

(7) A company is legally required to have its accounts annually audited, there is no such compulsory requirement for a partnership

(8) To death, retirement or bankruptcy of a partner dissolves the partnership, but a shareholder's death, bankruptcy or retirement would not affect the constitution of the company.

Q. 287. *What steps need be taken to register a Public Company?*

A. In order to register a Public Company, the following documents must be filed with the Registrar of Joint Stock Companies:—

(1) The Memorandum of Association and the Articles of Association.

(2) A statement of the Nominal Capital.

(3) A list of persons who have consented to act as Directors.

(4) A written consent by the Directors to act in that capacity.

(5) An undertaking by the Directors to take up and pay for their qualification shares.

(6) A Statutory Declaration by the Solicitor or the Secretary that all the requirements of the Act have been complied with.

(7) The Memorandum and Articles of Association after being signed by at least about seven persons must be stamped and lodged with the Registrar, who, if satisfied that everything is in order, will issue a Certificate of Incorporation.

Q. 288. *What is a Memorandum of Association and what are its contents?*

A. A Memorandum of Association is the document of utmost importance required to be registered on the formation of a company. It is a contract binding the company and its members to the observation of its provisions. It is, so to say, a charter of the company for the guidance of the outside public, defining the company's powers and limiting the scope of its operations.

The Memorandum of Association contains the following clauses:—

(1) **The name** of the company with the word "Limited" at the end of the name.

(2) **The Domicile** of the company (i.e. the country or the province in which the registered office of the company is to be situated).

(3) **The objects** of the company (stating the purpose for which the company is formed, and defining its powers).

(4) **The Limitation of Liability** (stating in what way the liability of the members is limited).

(5) **The Capital** of the Company indicating the amount of share capital with which the company proposes to be registered, and the number of shares into which it is divided.

(6) **The Declaration of Association** whereby the subscribers to the Memorandum agree to form the company, and to take the number of shares stated opposite their names.

Q 289 *What are the Articles of Association, and what matters do they usually relate to?*

A The Articles of Association are the regulations framed for the internal management of the company, and by which the objects and powers of the company are carried into effect They constitute a contract between the company on the one hand and the shareholders individually on the other hand, and also between the members *inter se* They are subordinate to and are controlled by the Memorandum

The Articles usually deal with the following points —

(1) Share capital and its division into various classes
(2) Rights attaching to the different classes of shares
(3) Calls on shares
(4) Underwriting commission
(5) Transfer and Transmission of shares
(6) Lien on shares
(7) Forfeiture of shares
(8) Conversion of shares into stock
(9) Share warrants
(10) Alteration of capital
(11) Directors their numbers, powers duties qualification remuneration disqualification and rotation.
(12) Proceedings of Directors
(13) General and Extraordinary Meetings
(14) Proceedings at Meetings
(15) Voting rights of members
(16) Notices
(17) The Common Seal.
(18) Dividends and Reserve
(19) Accounts and Audit, etc, etc

Q 290 *Mention the main points of distinction between Public Companies and Private Companies*

A **A Public Company** is one which invites public subscription for its share capital.

A Private Company is one which by its Articles of Association—

(a) Limits the number of its members to fifty (exclusive of persons who are or who have been in the employment of the company)

(b) Prohibits any invitation to the public for the subscription of its shares or debentures.

(c) Restricts the right to transfer its shares.

(d) The restrictions placed upon Public Companies in regard to the filing of prospectus, allotment of shares, appointment of directors and commencement of business do not apply to Private Companies.

(e) A Public Company requires at least seven persons to register it, whereas in a Private Company the minimum number of persons required is two.

Q. 291. *What restrictions are placed on the Allotment of Shares in a Public Company?*

A. A Public Company cannot proceed to allotment of shares unless the following conditions are complied with:—

(1) That the minimum subscription as fixed by the Memorandum or Articles and named in the Prospectus, or if no amount is so fixed, then the whole of the share capital so offered for subscription has been applied for.

(2) That the amount payable on application on each share shall not be less than five per cent of the nominal amount of the share.

(3) That the sum payable on application has been received in *cash* by the company. (Under the English Companies Act, 1929, it is provided that if a cheque has been received in good faith and the Directors have no reason for suspecting that the cheque will not be paid, it will be treated as cash although it may not be cleared before the allotment of shares.)

(4) For the purpose of the minimum subscription, no amount of share capital payable otherwise than in cash should be taken into account.

If the aforesaid conditions are not complied with within 120 days (40 days in England) after the first issue of the Prospectus, all money received from the applicants should be returned forthwith. Any default in this respect will render the directors jointly and severally liable for the repayment of the money 130 days (48 days in England) after the issue of the Prospectus with interest at 7% (5% in England) per annum.

Q. 292. *What restrictions are there on the Commencement of Business by a Public Company?*

A. A Public Company cannot commence business or exercise any borrowing powers unless—

(1) Shares, wholly payable in cash, have been allotted to the extent of the minimum subscription:

(2) Every director has paid cash to the company on shares taken up by him to the same extent as the public:

(3) A Statutory Declaration by the Secretary or a Director to the effect that the aforesaid conditions have been complied with has been filed with the Registrar, and

(4) Where no Prospectus is issued a Statement in lieu of Prospectus has been filed with the Registrar

On filing the above declaration the Registrar will issue a Certificate entitling the company to commence business

Though no borrowing powers can be exercised till the aforesaid conditions are complied with a company can nevertheless offer debentures for subscription simultaneously with the shares

Q 293 *What restrictions are placed on the Appointment of Directors in a Public Company?*

A No person is capable of being appointed a Director of a Public Company by the Articles or named as a Director in any Prospectus unless he has previously himself or by his agent authorised in writing—

(1) Signed and filed with the Registrar of Companies a consent in writing to act as such Director, and

(2) Either signed the Memorandum for the number of shares not less than his qualification if any, or signed and filed with the Registrar a contract in writing to take from the Company and pay for his qualification shares, if any

Q 294 *What is a Prospectus? Give a brief summary of its contents*

A A Prospectus may be defined as any notice, circular, advertisement or other invitation to the public for subscription or purchase of any shares or debentures of a company

It must be dated and signed by all the directors named therein, and a copy must be filed with the Registrar before publication Every copy issued to the public must state on the face of it that a copy has been so filed with the Registrar

The following is a brief summary of matters required to be stated in a Prospectus —

(1) The contents of the Memorandum (except when published as a newspaper advertisement)

(2) The qualification and remuneration of directors

(3) The names, addresses and descriptions of directors and managers

(4) The minimum subscription and the amount payable on application and allotment

(5) The amount of purchase money for any property acquired and the amount of goodwill.

(6) The names, etc. of the vendors, and the amount payable to them in cash, shares or debentures.

(7) The number and amount of shares and debentures issued as fully or partly paid up otherwise than in cash, and the consideration for which they have been so issued.

(8) The amount or the rate of Underwriting Commission and commission on placing shares or debentures.

(9) The amount or estimated amount of Preliminary Expenses.

(10) Date of and parties to any material contract and the time and place at which they can be inspected.

(11) The names and addresses of the Auditors (if any) of the Company.

(12) Particulars of any director's interest in the promotion of or the property proposed to be acquired by the Company, and the amount paid or payable to him in cash, shares or otherwise.

(13) Where the shares are of different classes, the rights of voting attaching to each class.

The following further particulars must be included in a Prospectus published in England:—

(14) The discount, if any, allowable on shares offered.

(15) Particulars as to Redeemable Preference Shares.

(16) In case of an already existing company, a Report by the Auditors of the Company as to the profits of and dividends paid in each of the three preceding financial years.

(17) If any of the proceeds of the issue are to be applied in purchasing a business, a Report by the Accountants named in the Prospectus as to the profits of each of the three preceding years of the business.

Q. 295. *What is Minimum Subscription and why should it be stated in the Prospectus?*

A. Minimum Subscription is the amount fixed by the Memorandum or Articles and named in the Prospectus as the least amount of shares which should be subscribed for by the public before the directors can proceed to allotment. If no such amount is fixed, then the whole of the capital offered for subscription must be subscribed by the public.

The object of this provision is to ensure that sufficient capital is available for the requirements of the company before it commences business

The Companies Act 1956 has already defined the minimum subscription It is the amount which in the opinion of the Directors must be raised in order to provide for—

(a) the Purchase Price of any property acquired or to be acquired and payable in cash

(b) Preliminary Expenses

(c) Underwriting commission or commission on placing shares

(d) the payment of any moneys borrowed by the company for any of the foregoing matters and

(e) Working Capital

Q 296 *What is Share Capital? Describe the several terms applied to the Share Capital of a Company*

A **Share Capital** represents the total amount of shares subscribed by the shareholders to serve as capital for the Company

Authorised Nominal or Registered Capital represents the total amount of Share Capital authorised by the Memorandum of Association and with which the Company is registered

Issued Capital is the amount of shares that have been offered to the public for subscription for cash and to the vendors as fully or partly paid

Subscribed Capital represents that portion of the Share Capital as has been taken up by the public and the vendors

Called up Capital represents the amount of money called up on the shares actually subscribed

Paid up Capital is that portion of the called up capital as has actually been paid up by the shareholders as also the extent to which the shares have been issued as paid up

Calls in arrear represent the extent to which the shareholders have not paid the calls made on them

Uncalled Capital is the amount remaining to be called on the shares actually issued to the public or the vendors

Reserve Capital represents that portion of the subscribed capital which has not been called up and which the Company by special resolution has declared not to be called up except in the event of and for the purposes of winding up

Q. 297. *Explain and define the different classes of Shares usually issued by Joint-Stock Companies.*

A. The following were the classes of shares issued by Joint-Stock Companies before the Companies Act, 1956, came into force:—

Ordinary Shares or Equity Shares are those which do not carry any special rights or privileges excepting the ordinary right of every shareholder to participate in the annual profits.

Preferred Ordinary Shares are those which have a right to a fixed dividend, after the preference shareholders have been paid their dividend.

Deferred Ordinary Shares are those which rank for dividend after the preferred ordinary shareholders are paid their dividend.

Preference Shares are those which rank for dividend in priority to any other class of shareholders out of the available profits. The preference shareholders may also have a prior claim to refund of capital in the event of a winding-up. The preference dividend is payable each year only out of the profits of that year.

Cumulative Preference Shares are those whose holders are entitled to a fixed dividend each year not only out of the profits of that year, but whose right to such dividend accumulates till it is paid, and the arrears of such dividend form a first charge upon any subsequent year's profits. The arrears of dividend thus become a Contingent Liability and are shown as such in the Company's Balance Sheet. Preference Shares are always assumed to be cumulative, unless the Articles expressly provide otherwise.

Deferred, Founders' or Management Shares are those the holders of which have to wait for their dividend until all other classes of shareholders have been paid their dividend. Such shares are usually issued to the founders, promoters or vendors and carry with them a right to a substantial portion of the profits after all other prior claims are satisfied.

Redeemable Preference Shares.—These are a new class of shares which an English Company can now issue under the (English) Companies Act, 1929, if so authorised by its Articles. These shares must be fully paid and the company can provide for their repayment by creating a Specific Reserve for the same out of distributable profits.

Participating Preference Shares are those which give to the holders in addition to the fixed preference dividend, a right to share in the surplus profits after all the other shareholders have received a specified rate of dividend. The Participating Preference Shareholders may also have a further right to participate in the distribution of surplus assets which may result on the dissolution of the company.

Guaranteed Preference Shares carry the right to a fixed rate of dividend which is guaranteed either by the vendors or by some third party. In the

event of the company not making sufficient profits to pay such dividend, the guarantors have to pay the same out of their personal resources.

Under Sections 85 and 86 of the Companies Act, 1956, a Company can issue now (1) Preference Shares and (2) Equity Shares only.

Q. 298. *What are Debentures? Mention the different kinds of Debentures issued by companies.*

A. Debentures are documents evidencing loans borrowed by companies for fixed periods, repayment of which is generally secured to the lenders by some charge on the company's assets, and carrying a certain rate of interest. They are generally repayable at the end of a definite period or are **irredeemable** during the existence of the company. **Irredeemable** Debentures are mostly issued by Railways and other similar public utility enterprises.

The following are the various kinds of Debentures to be met with in practice: —

Simple or Naked Debentures afford no charge on the property of the company, and the holders of such Debentures, therefore, rank as ordinary unsecured creditors.

Registered Debentures are debentures registered in the names of the holders in the books of the company and the transfers of these must be registered in the books of the company as in the case of shares.

Bearer Debentures are payable to bearer. They are negotiable instruments and are transferable by mere delivery.

Floating Debentures are those which are secured by a floating charge on the assets of the company. Such a charge practically covers all the Company's assets including floating assets such as book debts, stock, etc. and whereas it does not prevent the company from dealing with those assets in course of the ordinary business, it creates a charge upon them in favour of debenture-holders as against other creditors, in case of failure on the part of the company.

Mortgage Debentures are those the repayment of which is secured by a fixed charge or mortgage on the permanent assets of the company such as Land, Buildings, Plant, Machinery, etc.

Q. 299. *Discuss the difference between a Shareholder and a Debenture-holder.*

A. The main points of distinction between a Shareholder and a Debenture-holder are as under:

(a) A shareholder is a proprietor or partner in the company, whereas a Debenture-holder is a loan creditor of the company.

(b) A shareholder participates in the profits of the company and that too only when a dividend is declared. A Debenture-holder is entitled to a

fixed interest on his loan irrespective of whether the Company has made profit or not.

(c) Shareholders exercise some control in the management of the company by voting at general meetings, but the Debenture-holders have no right of interference in the management of the company so long as the terms of the Debentures are complied with.

(d) In the event of liquidation, a Debenture-holder stands to be paid out his loan before any shareholder is repaid anything in respect of share capital.

Q. 300. *What Statutory Books and Documents, other than Books of Account, are required to be kept by every Company?*

A. Every Limited Company must compulsorily maintain the following Statutory Books over and above the usual Books of Account:—

(1) Register of Members.
(2) Index of Members.
(3) Annual Return to be made by Company having a Share Capital.
(4) Minute Books.
(5) Register of Directors, Managers, Managing Agents, Secretaries and Treasurers.
(6) Register of Contracts, Companies and Firms in which a Director or Directors are interested.
(7) Register of Charges.
(8) Register of Debenture-holders and Index to the same.
(9) Register of Directors' Shareholding. etc.
(10) Register of Selling Agents under Section 356.
(11) Register of Supply or Rendering of Services under Section 357.
(12) Register of Buying Agents under Section 358.
(13) Register of Commission, etc. of Managing Agents under Section 359.
(14) Register of Contracts with Managing Agents under Section 360.
(15) Register of Investments not held in company's name under Sec. 49.
(16) Directors' Attendance Book.

Q. 301. *Give a list of the usual Statistical Books maintained by int-Stock Companies in addition to the Statutory Books.*

A. The following Statistical Books are usually maintained:—

(1) Share Application and Allotment Book.
(2) Share Call Books.
(3) Register of Share Transfers.
(4) Register of Debenture-holders.
(5) Shareholders' Dividend Book.
(6) Debenture Interest Book.
(7) Register of Certifications and Balance Tickets.
(8) Debenture Transfer Register.
(9) Agenda Book.
(10) Directors' Attendance Book.
(11) Register of Sealed Documents.
(12) Register of Powers of Attorney.
(13) Register of Share Certificates.
(14) Register of Probates.
(15) Register of Share Warrants, etc., etc.

Q 302. *Give a brief description of the purpose and contents of five important Statutory Books*

A. **(1) Register of Members**—This book must contain the names, addresses and occupations of the members, the number of shares held by each member, the amount paid up on each share, the date of becoming a member and ceasing to be such

It is the entry on this book which is the sole evidence of membership The Register facilitates the making of Calls, payment of Dividends, Transfer of shares verification of the voting rights of each member and the settlement of the List of contributories in the event of liquidation

(2) Annual List of Members and Summary Book—The list must contain the names, addresses and occupations of all persons who have been members of the company since the date of the last return (or the date of incorporation if it is the first return) till the date of the first or only ordinary general meeting in the year It must also state the number of shares held by each existing member specifying the shares transferred during the period covered by the return by all persons who are the existing members or have ceased to be members

The Return must contain a summary of shares issued for cash and those issued as fully or partly paid up otherwise than in cash Besides that, it must contain particulars as to the share capital and its division, the total number of shares issued, amount of calls made, received and unpaid, amount of underwriting commission and commission on placing shares, shares forfeited, share warrants outstanding, issued and surrendered, names, addresses and occupations of each director and manager, and the amount of debt secured by mortgages and charges

The purpose of this Annual Return is to enable the Company and the Registrar of Joint Stock Companies to see that the number of members is not reduced below the minimum and also in the case of a Private Company, that the number does not exceed fifty It also enables the particulars as to share capital, mortgage, etc contained in the Balance Sheet to be verified with the Return

(3) Register of Mortgages and Charges—This book must contain a short description of the property mortgaged or charged, the amount of the mortgage or charge and the names of the mortgages or persons entitled thereto

This book is of utmost importance from the point of view of the creditors of the Company The existence of this book enables a loan creditor or a creditor for goods supplied to see what assets of the company have been mortgaged or charged, and whether the remaining assets are sufficient or not to cover the other unsecured liabilities of the company In the absence of such a book, there is nothing to stop the company from creating more

than one floating charge over the same assets. The interest of the loan creditors would thus be jeopardised.

(4) **Register of Directors and Managers.**—This book must contain the names, addresses and occupations of the Directors and Managers of the Company.

The public can at any time ascertain who are at the helm of the concern. Moreover in the event of winding up, the Liquidator or the Court can definitely ascertain as to which of the Directors and Managers are guilty of negligence, misfeasance or breach of trust.

(5) **Minute Books** serve to maintain a record of all proceedings at the general meetings of shareholders and of the meetings of the Company's Directors. A minute signed by the Chairman of the meeting at which the proceedings were had, or by the Chairman of the next succeeding meeting, will be *prima facie* evidence of the proceedings as recorded. The Directors' and the Shareholders' Minute Books are usually kept separate.

These books are permanent records of various acts performed on behalf of the company and which require the sanction of the directors or of the company in general meeting. At any later date it can be ascertained whether the acts performed were sanctioned by the requisite majority, and whether the meetings held were properly constituted.

Q. 303. *What is the difference between Stocks and Shares?*

A. (1) Stocks must always be fully paid, but shares need not be fully paid.

(2) Shares must have distinctive numbers, but no numbers are allotted to stock.

(3) Stock can be transferred in fractions or in multiples of a certain amount, e.g. Rs. 5, 10, 15 and so on, but each share must be transferred as a whole and not in fractions.

Q. 304. *Can a company issue redeemable preference shares? If so, in what way can such shares be redeemed?*

A. A company can issue Redeemable Preference Shares under Section 80 of the Companies Act. No such shares can be redeemed unless they are fully paid up. The redemption of Redeemable Preference Shares can be effected by the following two methods:—

(1) Out of profits which would otherwise be available for dividend; or

(2) Out of the proceeds of a fresh issue of shares made expressly for the purpose of redemption.

If the Redemption is effected out of Profits a sum equal to the amount required to redeem the shares must be transferred out of the Profits to a Reserve Fund called Capital Redemption Reserve Fund.

If the shares are redeemed out of the proceeds of a fresh issue, the premium (if any) payable on redemption shall be provided for out of profits before redemption.

Q 305. *How are the amounts due on shares usually payable?*

A. In order to help the public to subscribe towards the share capital, the amounts due on shares are usually payable by instalments, although there is nothing in the Companies Act to prohibit a Company from calling the payment of the full face value along with applications The amount payable along with application (not less than 5% of face value) is known as Application Deposit, the instalment payable on Allotment is called Allotment Money, and further instalments are known as First Call, Second Call, etc

Q. 306 *Describe briefly the procedure in regard to Application for and Allotment of Shares*

A. A Form of Application is usually attached to the Prospectus which a public company issue in order to invite the public to subscribe for its shares The Application Forms duly filled in are sent by the applicants with the amount payable on application to the company's bankers, or to the registered office of the company, as desired in the prospectus Arrangements are usually made with the company's bankers to receive application moneys and credit the same to separate accounts for each class of shares offered by the company When the Application Lists are closed according to the notice given in the prospectus, the Application Forms together with the relative Pass Books are handed over by the bankers to the company The Pass Books are checked with the applications which are numbered consecutively and filed in a serial order

On the Minimum Subscription being reached, the allotment sheets are prepared, and the Directors proceed to allot shares The Directors must pass a resolution allotting shares to the different applicants and instructing the Secretary to issue Letters of Allotment to the several Allottees, and Letters of Regret to such of the applicants as have not been allotted any shares The Letter of Allotment must distinctly state the amount due by the allottee and the date within which it should be paid. Full particulars as to the resolution should be entered in the Minute Book. Each allotment sheet is then initialled by the Chairman for identification. Full details of applications and allotment are entered in a Statistical Book called the Share Application and *Allotment Book.*

Q. 307. *What record is made in the Statistical Books regarding Applications for and Allotment of Shares? Give a specimen of a Share Application and Allotment Book.*

A. A Share Application and Allotment Book, the form of which is given on page 296, is kept, wherein the details of each application, viz. the serial number and date of application, the name, address and occupation of the applicant, the number of shares applied for, and the amount of application deposit received, are recorded.

After the allotment is made and the letters of allotment are posted, further detailed record is made in this book as to the date of allotment (i.e. the date of the Board's Resolution allotting shares), the number of shares allotted to each applicant with their distinctive numbers and the amount due on allotment from each allottee.

On receipt of allotment moneys, details of cash received, the date of receipt and the Cash Book Folio are entered in their respective columns.

There is a further set of columns provided in this Book for Application moneys returned to those applicants who have been refused allotment.

Q. 308. *What entries need be made in the Financial Books in regard to Application and Allotment of Shares?*

A. The amounts received on applications as shown by the Pass Book are entered on the receipts side of the Cash Book from day to day, with details of each application as follows:—

CASH BOOK (Receipts Side)

Date		Details	L.F.	Bank
	To Share Application Account Being the application deposits at Rs. 2 per share received as under:— Application Nos. — Rs. 1. A. B. Padshah—20 Shares — 40 2. R. P. Shroff—100 „ — 200 3. N. J. Dinshaw—150 „ — 300			540

The Share Application Account is then credited with the daily totals in the Financial Ledger.

If the capital is over-subscribed, some applications will have to be rejected, and the deposits received on such applications will be returned together with Letters of Regret. The following Cash Book entry will be passed in regard to the return of application deposits.

(Contd. on p. 297

SHARE APPLICATION AND ALLOTMENT BOOK

No of application	Date of application	Name of applicant	Address	Occupation	No of shares applied for	Amount paid on application		Date of Allotment	No of shares allotted	Distinctive Numbers		No of Allotment Letter	Amount payable on allotment	Amount paid			Amount of application deposit returned				Folio in Share Ledger	Remarks
						C.B. Folio	Amount			From	To			Date paid	C.B Folio	Amount	No of Letter of Regret	Date	C.B. Folio	Amount		

NOTE —Although this book is not compulsorily required it is maintained by most of the Companies, as it helps to secure a clear record of all Applications received and how they were subsequently dealt with Besides this book serves as a very useful medium for recording the accounts of the shareholders in the Register of Members which is a Statutory Book

SHARE CALL BOOK

First Call of Rs 3/ per share on Equity Shares made on payable by

Name	Address	Folio in Register of Members	No of Shares held	Amount due	Amount paid	C.B. Folio	Arrears					Cash Received in advance	Remarks
							Amount due	No of days	Interest	Amount paid	C.B. Folio		

Contd. from p. 295]

CASH BOOK (Payments Side)

Date		Details	L.F.	Bank
	By Share Application Account Being application money returned at Rs. 2 per share to the following applicants who have been refused allotment :— P. Sorabji— 20 Shares Rs. 40 N. Naoroji— 16 „ „ 32 D. Ganpat— 30 „ „ 60			132

In the Ledger, the Share Application Account will be debited with these amounts from the Cash Book.

On the allotment being made, the credit balance on Share Application Account is transferred to Share Capital Account by means of a Journal Entry as under:—

Share Application Account .. Dr. ......
To Share Capital Account ......

A further Journal Entry will be made for the total allotment money due in respect of shares allotted, thus,

Share Allotment Account .. Dr. ......
To Share Capital Account ......

On the allotment moneys being received, they will be entered from day to day in the Cash Book under the heading of Share Allotment Account as follows:—

CASH BOOK (Receipts Side)

Date		Details	L.F.	Bank
	To Share Allotment Account Being the allotment money received at Rs. 3 per share as under :— P. Smith Rs. 450 J. Jones „ 210 R. Modi „ 102			762

From the Cash Book, postings will be made of these amounts to the credit of Share Allotment Account in the Ledger. As the Allotment Account is debited at first with the total amount due thereon and is then credited with the amounts received from time to time, it follows that the debit balance on Share Allotment Account, if any, would represent the allotment moneys in arrears. When the total amount due on allotment is received. the Share Allotment Account will get squared and no balance will appear thereon.

Q. 310. *What Statistical Record is maintained of Calls made on Shareholders? Give a specimen of a Share Call Book.*

A. A separate Share Call Book is kept wherein full particulars of the Calls due from each member are entered after the Call Notices have been despatched. In this book will be entered the name and address of each member, the number of shares held by him, the total amount of calls due from him and the amount paid. If any Calls are in arrears, they are extended in another column, and the amount received in respect thereof together with any interest will be recorded later. A separate column is reserved for amounts received in Advance of Calls, since these moneys are to be kept separate until the appropriate Call is made.

The form of Share Call Book is as shown on page 296.

Q. 311. *A Company was formed with a capital of Rs. 15,00,000 in shares of Rs. 10 each. It offered to the public 1,00,000 shares payable Re. 1 per share on application, Rs. 2 per share on allotment and Rs. 3 per share as First Call. The balance of Rs. 4 per share was to be called only in case of necessity. Applications were received for 90,000 shares and the shares were accordingly allotted. All the money was duly received with the exception of Allotment money on 200 shares and First Call on 500 shares.*

Journalise the whole of the transactions and show the opening Balance Sheet of the Company.

A. JOURNAL ENTRIES

	L.F.	Rs.	Rs.
Bank Account .. .. Dr.		90,000	
To Share Application Account			90,000
(Being the application deposit of Re. 1 per share received on 90,000 shares.)			
Share Application Account .. .. .. Dr.		90,000	
To Share Capital Account			90,000
(Being the transfer of Share Application Account to Share Capital Account.)			
Share Allotment Account .. .. .. Dr.		1,80,000	
To Share Capital Account			1,80,000
(Being the total amount due on allotment of 90,000 Shares at Rs. 2 per share as per Board's Resolution dated———.)			
Bank Account .. .. Dr.		1,79,600	
To Share Allotment Account			1,79,600
(Being the amount received on account of Share Allotment.)			
Share First Call Account .. .. .. Dr.		2,70,000	
To Share Capital Account			2,70,000
(Being the total amount due on First Call of Rs. 3 per share on 90,000 shares as per Board's Resolution dated———.)			
Bank Account .. .. .. Dr.		2,68,500	
To Share First Call Account			2,68,500
(Being the amount received on account of First Call.)			

BALANCE SHEET OF THE CO LTD

Capital & Liabilities		Rs.	Assets	Rs.
Authorised Capital — 1,50,000 shares of Rs. 10 each	Rs 15 00 000		Cash at Bank	5,38 100
Issued Capital — 1 00 000 shares of Rs 10 each	10 00 000			
Subscribed Capital — 90 000 shares of Rs 10 each	9 00 000			
Paid up Capital — 90 000 shares of Rs 10 each Rs 6 per share called up	5 40 000			
Less Calls in arrears	1,900	5,38 100		
	Rs	5,38 100	Rs.	5,38 100

Q 312 *Taking the figures as per the above example, state the different terms applicable to the Share Capital of this Company*

A The Share Capital of this company would be termed as under —

Authorised Capital Registered Capital Nominal Capital	=	Rs 15 00 000
Issued Capital	=	10 00 000
Subscribed Capital	=	9 00 000
Called up Capital	=	5 40 000
Paid up Capital	=	5 38 100
Calls in arrears	=	1,900
Uncalled Capital	= „	3 60 000

Q 313 *A Limited Company offered for subscription 1,00,000 shares of Rs 10 each payable Rs 2 per share on application and Rs 3 per share on allotment Applications were received for 1,20,000 shares The deposits on 10,000 shares were returned to those persons to whom no shares were allotted The deposits in respect of the other 10,000 shares were carried forward to the Allotment Account, those subscribers having paid for more shares than were allotted to them The moneys payable on allotment were duly received Make the necessary Cash Book, Journal and Ledger Entries to record the above transactions*

A.

CASH BOOK

	Rs.		Rs.
To Share Application Account :— Application Deposit of Rs. 2 per share received on 1,20,000 shares applied for ..	2,40,000	By Share Application Account :— Application Deposit on 10,000 shares returned	20,000
„ Share Allotment Account :— Amount received on Allotment at Rs. 3 per share ..	2,80,000	„ Balance c/d.	5,00,000
Rs.	5,20,000	Rs.	5,20,000
To Balance b/d. ..	5,00,000		

JOURNAL ENTRIES

	L.F.	Rs.	Rs.
Share Application Account .. .. Dr.		20,000	
To Share Allotment Account			20,000
(Being the application deposit on 10,000 shares transferred to Share Allotment Account.)			
Share Application Account .. .. Dr.		2,00,000	
To Share Capital Account			2,00,000
(Being the amount received on application of 1,00,000 shares transferred.)			
Share Allotment Account .. .. Dr.		3,00,000	
To Share Capital Account			3,00,000
(Being the total amount due on allotment for 1,00,000 shares at Rs. 3 per share as per Board's Resolution dated———.)			

SHARE APPLICATION ACCOUNT

	Rs.		Rs.
To Bank ..	20,000	By Bank	2,40,000
„ Share Allotment Account—Transfer ..	20,000		
„ Share Capital Account—Transfer ..	2,00,000		
Rs.	2,40,000	Rs.	2,40,000

SHARE ALLOTMENT ACCOUNT

	Rs.		Rs.
To Share Capital Account ..	3,00,000	By Share Application Account ..	20,000
		„ Bank ..	2,80,000
Rs.	3,00,000	Rs.	3,00,000

SHARE CAPITAL ACCOUNT

	Rs		Rs.
To Balance c/d	5,00 000	By Share Application Account	2,00,000
		„ Share Allotment Account	3,00,000
Rs	5,00,000	Rs	5,00,000
		By Balance b/d	5,00,000

Q. 314. *A Limited Company with a Registered Capital of Rs 5,00,000 in shares of Rs 10 each, issued 20,000 on such shares, payable Re 1 per share on application, Rs 2 per share on allotment and Rs 3 per share three months later All the moneys payable on allotment were duly received, but on the First Call being made, one shareholder paid the entire balance on his holding of 300 shares and five shareholders with a total holding of 1,000 shares failed to pay the First Call on their shares. Give Journal Entries to record the above transactions and show the Company's Balance Sheet.*

A. JOURNAL ENTRIES

	L.F.	Rs	Rs.
Bank Account ... Dr. To Share Application Account (Being the amount received as application deposit on 20,000 shares at Re 1 per share)		20,000	20,000
Share Application Account . Dr To Share Capital Account (Being the transfer of Application Account to the latter Account)		20,000	20,000
Share Allotment Account . Dr. To Share Capital Account (Being the amount due on allotment of 20,000 shares at Rs 2 per share as per Board's Resolution of—)		40,000	40,000
Bank Account .. Dr. To Share Allotment Account (Being the amount received on allotment of Rs 20,000 shares)		40,000	40,000
Share First Call Account .. . .. Dr To Share Capital Account (Being the total amount due on First Call on 20 000 shares at Rs. 3 per share as per Board's Resolution dated———)		60,000	60,000
Bank Account .. . Dr. To Share First Call Account (Being the amount received on First Call)		58,200	58,200
Share First Call Account . .. Dr. To Calls in Advance Account (Being the amount received in advance of Calls on 300 shares)		1,200	1,200

BALANCE SHEET OF THE .... CO. LTD.

Capital and Liabilities	Rs.	Rs.	*Assets*	Rs.
Authorised Capital :—			Cash at Bank	1,18,200
50,000 shares of Rs. 10 each	5,00,000			
Issued Capital :—				
20,000 shares of Rs. 10 each	2,00,000			
Subscribed Capital :—				
20,000 shares of Rs. 10 each	2,00,000			
Paid-up Capital :—				
20,000 shares of Rs. 10 each				
Rs. 6 per share called up	1,20,000			
Less Calls in arrears	3,000			
		1,17,000		
Calls in advance ..		1,200		
Rs.		1,18,200	Rs.	1,18,200

Q. 315. ***What are Preliminary Expenses, and how should they be shown in the published accounts of a company?***

A. These are the expenses which must necessarily be incurred for the purpose of forming a new company. The following items are usually included under this head:—

(1) Cost of registering the company.

(2) Stamp Duty and Fees on the Nominal Capital.

(3) Fees and Stamp duties of the documents filed with the Registrar.

(4) Cost of preparing and printing the Memorandum and Articles of Association.

(5) Cost of preparing all preliminary agreements including stamp duties.

(6) Cost of preparing, printing and circulating the Prospectus.

(7) Valuers' fees for valuing assets proposed to be acquired.

(8) Accountants' charges for certifying profits.

(9) Cost of preparing and printing Share Certificates, Letters of Allotment, Debentures, Trust Deed, etc.

(10) Cost of the Books of Accounts, Statutory and Statistical Books and the company's seal.

As the amount expended under this head is of a non-recurring nature and as it results in getting the Share Capital subscribed, it is deemed desirable not to charge the whole of it to the first year's *Revenue Account* but to distribute it over a reasonable number of years, say from 3 to 5 years.

It may be pointed out that there is nothing in the Companies Act to compel a company to write off its Preliminary Expenses within any stated number of years, and the expenditure under this head may be permanently

capitalised, if a company so desires, and shown as an asset in the Balance Sheet In any case, it would be a fictitious and an intangible asset, and as the permanent capitalising of such an item cannot be said to be a sound or a prudent measure from the viewpoint of finance or accounting it would seem desirable to extinguish it from the books as early as the net profits would admit

The total amount of Preliminary Expenses or so much of it as has not been written off must be shown under the head 'Miscellaneous Expenditure" on the assets side of the Balance Sheet

Q 316 *The Articles of Association of a Company permit the directors to receive from Shareholders payment in advance of Calls and to allow interest on such advances Is such interest necessarily dependent upon profits and how should such Calls in Advance and interest due thereon be treated?*

A When the Articles of a company permit the directors to pay interest on money received in advance of calls, such interest is never dependent upon profits and must be paid even when the company makes a loss The interest due and paid is debited to the Profit & Loss Account as an expense and not as an appropriation of profit The entry for interest outstanding is—

Interest Account Dr
To Outstanding Creditors

The amount received in advance of Calls should be credited to Calls in Advance Account and must be shown quite distinct from the called up capital It must further be noted that Calls in Advance are not entitled to any dividend, but only carry a certain rate of interest provided the Company's Articles authorise such interest to be paid.

Q 317 *Can a company issue Shares at a Premium? What entry need be passed in connection with Premium on Shares and how can such Premium be ultimately dealt with by the company?*

A A Company can issue its shares at a premium, i e at a higher price than the face value, provided there is a public demand for such shares at a higher value The Premium received on issue of shares must not be mixed with the Share Capital moneys, but must be credited to a separate account styled "Premium on Issue of Shares Account", and shown as a separate item on the liabilities side of the Balance Sheet under the main heading "Reserves and Surplus'

The amount earned by a company by issue of its shares at a premium cannot be said to be profits earned in the usual course of its business, and as such, must be treated as Capital Profits and not transferred to Profit and Loss Account The best method of dealing with such an extraneous source of gain would be to utilise it in issuing fully paid Bonus Shares, in providing for the premium payable on redemption of Redeemable Preference Shares or

of any debentures of the Company or in writing down fictitious assets such as Preliminary Expenses, Brokerage, or Underwriting Commission on Shares, Discount on Debentures, or Cost of Issue of Debentures. It may be even utilised in writing down Goodwill Account, if any. (Section 78.)

Q. 318. *A Limited Company issued 5,000 Preference Shares of Rs. 10 each at a premium of Rs. 4 per share payable Re. 1 per share on Application, Rs. 6 per share on Allotment (including premium), Rs. 3 on First Call and Rs. 4 on Final Call. The shares were all subscribed and the money duly received except the First Call on 1,000 shares and the Final Call on 1,500 shares. Give Journal Entries to record the above transactions and open Ledger Accounts.*

A.

JOURNAL ENTRIES

	L.F.	Rs.	Rs.
Bank Account .. .. Dr.		5,000	
To Preference Share Application Account			5,000
(Being the amount received on application of 5,000 Preference Shares at Re. 1 per share.)			
Preference Share Application Account .. .. Dr.		5,000	
To preference Share Capital Account			5,000
(Being the transfer of Application money to Share Capital Account.)			
Preference Share Allotment Account .. .. Dr.		30,000	
To Preference Share Capital Account			10,000
„ Premium on Shares Account			20,000
(Being the total amount due on allotment including Rs. 4 per share payable as premium on 5,000 shares allotted.)			
Bank Account .. .. .. Dr.		30,000	
To Preference Share Allotment Account			30,000
(Being the receipt of total amount due on allotment.)			
Preference Share First Call Account .. .. Dr.		15,000	
To Preference Share Capital Account			15,000
(Being the amount due as First Call on 5,000 shares at Rs. 3 per share.)			
Bank Account .. .. .. Dr.		12,000	
To Preference Share First Call Account			12,000
(Being the First Call amount received on 4,000 shares.)			
Preference Share Final Call Account .. .. Dr.		20,000	
To Preference Share Capital Account			20,000
(Being the amount due in respect of Final Call of Rs. 4 per share on 5,000 Preference Shares.)			
Bank Account .. .. .. Dr.		14,000	
To Preference Share Final Call Account			14,000
(Being the receipt of Final Call on 3,500 shares at Rs. 4 per share.)			

PREFERENCE SHARE APPLICATION ACCOUNT

	Rs		Rs.
To Preference Share Capital Account—Transfer	5,000	By Bank ..	5,000
Rs.	5,000	Rs.	5,000

PREFERENCE SHARE ALLOTMENT ACCOUNT

	Rs		Rs
To Preference Share Capital Account .	10,000	By Bank .	30,000
„ Preference Share Premium Account	20,000		
Rs.	30,000	Rs.	30,000

PREFERENCE SHARE PREMIUM ACCOUNT

			Rs.
		By Preference Share Allotment Account ..	20,000
		Rs.	20,000

PREFERENCE SHARE FIRST CALL ACCOUNT

	Rs		Rs
To Preference Share Capital Account	15,000	By Bank .	12,000
		„ Balance c/d. .	3,000
Rs	15,000	Rs	15,000
To Balance b/d. .	3,000		

PREFERENCE SHARE FINAL CALL ACCOUNT

	Rs		Rs
To Preference Share Capital Account .	20,000	By Bank .	14,000
		„ Balance c/d ..	6,000
Rs	20,000	Rs	20,000
To Balance b/d. ..	6,000		

PREFERENCE SHARE CAPITAL ACCOUNT

	Rs.		Rs.
To Balance c/d. ..	50,000	By Preference Share Application Account ..	5,000
		„ Preference Share Allotment Account ..	10,000
		„ Preference Share First Call Account	15,000
		„ Preference Share Final Call Account .	20,000
Rs.	50,000	Rs.	50,000
		By Balance b/d. ..	50,000

Q. 319. *Can a company issue its Shares at a Discount, and, if so, under what conditions can such an issue be made?*

A. It is now lawful for a company to issue at a discount shares in the Company of a class already issued:

Provided that—

(a) the issue of the shares at a discount is authorised by a resolution passed in general meeting of the company and is sanctioned by the Court;

(b) the resolution states the maximum rate of discount (not exceeding 10% in any case) at which shares are to be issued:

(c) not less than one year must, at the date of issue, have elapsed since the date on which the company was entitled to commence business; and

(d) the shares to be issued at a discount must be issued within two months after the date on which the issue is sanctioned by the Court or within such extended time as the Court may allow.

Every Prospectus relating to the issue of the shares and every Balance Sheet issued by the Company subsequently to the issue of the shares must contain particulars of the discount allowed on the issue of the shares or of so much of that discount as has not been written off at the date of the issue of the document in question. (Section 79.)

Q. 320. *Can a Company call the moneys due on Debentures by instalments? What entries should be passed in connection with the issue of Debentures?*

A. Moneys due on Debentures can be called by instalments in just the same manner as in case of shares. The entries to be passed in connection with the issue of Debentures follow on the same lines as the entries relating to share capital issue with the only difference that the ultimate credit in this case will be given to Debentures Account.

Q. 321. *May Debentures be issued at a discount or at a premium? How should the premium be treated in the books?*

A. Debentures may be issued at a discount, unless the Articles forbid such an issue Such discount must be notified to the Registrar of Companies

The amount of discount must also be shown in the Prospectus and in every Balance Sheet until written off completely

Debentures issued at a discount cannot be exchanged later on for fully paid shares of the same nominal value, as such a procedure would amount to an issue of shares at a discount

Debentures like shares may also be issued at a Premium and the premium received should be credited to Debenture Premium Account Since the premium received is not a profit earned in the usual course of the business, it should not be transferred to Profit and Loss Account, but should be utilised in writing off expenses of issuing Debentures, or in writing down fictitious assets such as Preliminary Expenses, or be credited to Debenture Redemption Fund Account, if any

There is, however, nothing to prevent a company from treating this premium as a Reserve Profit and distributing the same in dividends, unless the Articles forbid such a course

Q. 322. *What entries should be made in the books of a company when the Debentures are issued at a discount?*

A. When Debentures are issued at a Discount, Bank Account is debited with the actual amount received, Discount on Debentures Account is debited with the total discount allowed on the whole issue, and Debentures Account is credited with the full nominal value of the Debentures issued The Discount on Debentures is a loss, but it should not be completely written off in the year in which the Debentures are issued, since the benefit to be derived from the amount borrowed by the issue of Debentures will continue till the Debentures are redeemed Where the Debentures are redeemable after a fixed period, a proportionate amount of the Discount should be written off *out of revenue every year during which the Debentures are outstanding.* The debit balance left on the Discount on Debentures Account will continue to be shown separately on the assets side of the balance Sheet until it is completely written off

Where the Debentures are irredeemable, the Discount on Debentures *should not be allowed to stand in the books permanently, but should be* written off within a reasonable period While writing up the Books of Accounts, care should be taken to distinguish Cash Discounts from the Discount on Debentures, since the latter needs special treatment as described above

Where any other expenses are incurred on the issue of Debentures, it is usual to debit such expenses as well as the Discount on Debentures to one

account called "Cost of Issue of Debentures." The whole of the cost of issue should then be spread equally over the number of years for which the Debentures are to run and a proportionate amount charged off to Profit & Loss Account each year. The balance not written off will in the meantime appear on the assets side of the Balance Sheet as under:—

Cost of Issue of Debentures

Balance not written off.

Q. 323. *A Limited Company issued Rs. 5,00,000 8% First Mortgage Debentures in bonds of Rs. 1,000 each at par, payable 20% on Application, 30% on Allotment and the balance three months later. The money was duly received. Pass Journal Entries to record the above.*

A.

JOURNAL ENTRIES

	L.F.	Rs.	Rs.
Bank Account .. .. Dr.		1,00,000	
To Debenture Application Account			1,00,000
(Being the amount received on applications of Debenture Bonds.)			
Debenture Application Account .. .. Dr.		1,00,000	
To First Mortgage Debentures Account			1,00,000
(Being the transfer of the amount received on applications for Debentures.)			
Debenture Allotment Account .. .. Dr.		1,50,000	
To First Mortgage Debentures Account			1,50,000
(Being the amount due on allotment of Debentures.)			
Bank Account .. .. Dr.		1,50,000	
To Debenture Allotment Account			1,50,000
(Being the amount received on allotment of Debentures.)			
Debenture First and Final Call Account .. .. Dr.		2,50,000	
To First Mortgage Debentures Account			2,50,000
(Being the amount due on First and Final Call on Debentures.)			
Bank Account .. .. Dr.		2,50,000	
To Debenture First and Final Call Account			2,50,000
(Being the amount received on First and Final Call on Debentures.)			

Q. 324. *Rs. 5,00,000 Debentures in Bonds of Rs. 500 each are issued by a Limited Company at a premium of 5% payable Rs. 275 per bond on application (including the premium) and the balance on allotment. Make the necessary Journal and Cash Book Entries on the amount being duly received.*

A. CASH BOOK

	Rs.		Rs.
To Debenture Application Account—Application Deposit on 1,000 Debentures at Rs. 275 per debenture including premium of Rs. 25 per debenture	2,75,000	By Balance c. d.	5,25,000
" Debenture Allotment Account—Allotment money received on 1,000 Debentures at Rs. 250 per debenture	2,50,000		
Rs.	5,25,000	Rs.	5,25,000
To Balance b. d.	5,25,000		

JOURNAL ENTRIES

		L.F.	Rs.	Rs.
Debenture Application Account	Dr.		2,75,000	
To Debentures Account				2,50,000
" Premium on Issue of Debentures Account				25,000
(Being the amount received on Debenture Applications at Rs. 275 per debenture on 1,000 debentures issued, including premium of Rs. 25 per debenture, transferred from the former account to the appropriate accounts.)				
Debenture Allotment Account	Dr.		2,50,000	
To Debentures Account				2,50,000
(Being the amount due on allotment of 1,000 debentures at Rs. 250 per debenture.)				

Q. 325. *A Limited Company issued 1,000 Debenture Bonds of Rs. 100 each at a discount of 5%, payable 25% on Application, 25% on Allotment and the balance three months later. Make the necessary Cash Book and the Journal Entries assuming that the whole of the money was duly received.*

A. CASH BOOK

	Rs.		Rs.
To Debenture Application Account—Amount of application deposits on 1,000 debentures at Rs. 25 per debenture	25,000	By Balance c. d.	95,000
" Debenture Allotment Account—Allotment money received on 1,000 debentures at Rs. 25 per debenture	25,000		
" Debenture Call Account—Call money received on 1,000 debentures at Rs. 45 per debenture	45,000		
Rs.	95,000	Rs.	95,000
To Balance b. d.	95,000		

JOURNAL ENTRIES

	L.F.	Rs.	Rs.
Debenture Application Account .. .. Dr. To Debentures Account (Being the transfer of the Debenture Application Account to Debentures Account.)		25,000	25,000
Debenture Allotment Account .. .. Dr. To Debentures Account (Being the amount due on allotment of 1,000 Debentures at Rs. 25 per Debenture.)		25,000	25,000
Debenture Call Account .. .. .. Dr. To Debentures Account (Being the Call of Rs. 45 per debenture made on 1,000 Debentures.)		45,000	45,000
Discount on Debentures Account .. .. Dr. To Debentures Account (Being the Discount at 5% allowed on the issue of 1,000 Debentures of Rs. 100 each.)		5,000	5,000

Q. 326. *On January 1st, 1962, The Pictorial Journals Ltd., offered for subscription 4,000, 5% Debentures of Rs. 100 each, repayable in five years at par. The price of issue was Rs. 97. The Debentures were allotted on January 3rd. Show the Discount on Debentures Account for the five years after issue.*

A.

DISCOUNT ON DEBENTURES ACCOUNT

		Rs.			Rs.
1962			1962		
Jan. 1	To Debentures Account ..	12,000	Dec. 31	By Profit & Loss Account (1/5th of Rs. 12,000 written off) ..	2,400
				„ Balance c/d. ..	9,600
	Rs.	12,000		Rs.	12,000
1963			1963		
Jan. 1	To Balance b/d. ..	9,600	Dec. 31	By Profit & Loss Account (1/5th of Rs. 12,000 written off) ..	2,400
				„ Balance c/d. ..	7,200
	Rs.	9,600		Rs.	9,600
1964			1964		
Jan. 1	To Balance b/d. ..	7,200	Dec. 31	By Profit & Loss Account (1/5th of Rs. 12,000 written off) ..	2,400
				„ Balance c/d. ..	4,800
	Rs.	7,200		Rs.	7,200

DISCOUNT ON DEBENTURES ACCOUNT—*contd*

			Rs				Rs
1965				1965			
Jan	1	To Balance b/d	4 800	Dec. 31	By Profit & Loss Account (1/5th of Rs 12 000 written off)		2,400
					„ Balance c/d		2,400
		Rs	4 800			Rs	4 800
1966				*1966*			
Jan.	1	To Balance b/d	2 400	Dec. 31	By Profit & Loss Account (1/5th of Rs 12 000 written off)		2 400
		Rs	2,400			Rs	2 400

Q 327 *What entries are made when* (a) *Debentures are issued at par and are repayable at a premium, and* (b) *when they are issued at a discount and are repayable at a premium?*

A (a) When Debentures are issued at par and are repayable at a premium, the following entry is passed —

		Rs	Rs
Bank Account (with the par value received)	Dr		
Loss on Issue of Debentures (with the excess amount agreed to be paid representing the difference between the par Value and the premium payable)	„		
To Debentures Account (with the face value of the Debentures)			
Premium on Redemption of Debentures A/c. (with the premium agreed to be paid)			

The Loss on Issue of Debentures Account will be spread equally over the number of years the Debentures are to run and a proportionate amount will be charged off to Profit and Loss Account each year, the balance not written off appearing in the meantime on the assets side of the Balance Sheet, under its distinct heading

The Premium on Redemption of Debentures Account will appear as a distinct liability apart from the Debenture Account year after year during the period the Debentures are running When the Debentures become repayable, the credit balance of Premium on Redemption of Debentures Account will be transferred to the Debentures Account and on the Debenture-holders being paid out the whole amount including the premium, the Debentures Account will be debited and thus closed

It must be noted that the provision to be made in respect of redemption of the Debentures must be inclusive of the premium amount

(b) When the Debentures are issued at a discount and are repayable at a premium, the whole of the difference represented by the actual amount

realised at the time of issue and the amount repayable inclusive of the premium will be debited to Loss on Issue of Debentures Account.

Q. 328. *A Company issued Rs. 1,00,000 worth of 6% Debentures at par repayable after 10 years at a premium of 5%. Pass the necessary entry to record the transaction.*

A.

		Rs.	Rs.
Bank Account	Dr.	1,00,000	
Loss on Issue of Debentures	,,	5,000	
To Debentures Account			1,00,000
,, Premium on Redemption of Debentures			5,000

Note.—As the Debentures are to last for 10 years, one-tenth of the Loss on Issue will be charged off to revenue each year. so that by the time the Debentures expire, the whole of the loss would be equally distributed.

Q. 329. *A Company issued Rs. 1,00,000 worth of 6% Debentures at a discount of 5% repayable after 10 years at a premium of 5%. Pass the necessary entry to record the transaction.*

A.

		Rs.	Rs.
Bank Account	Dr.	95,000	
Loss on Issue of Debentures	,,	10,000	
To Debentures Account			1,00,000
,, Premium on Redemption of Debentures			5,000

Note.—In this case, the loss represents the difference between the discount and par value as also the par and the premium value. The whole of this loss of Rs. 10,000 will be spread equally over the 10 years the Debentures are to run, and a proportionate amount will be charged off to revenue each of these years.

Q. 330. *What are Vendors' Shares? What entries need be passed in regard to Purchase of Business by a Company and the payment of purchase consideration by the issue of fully or partly-paid shares to the vendors?*

A. Vendors' Shares are those which are issued to the sellers of a concern in full or part satisfaction of the purchase price. When a company purchases a running concern, the following entries are passed to record the transaction :—

(1) *Entry to record the purchase of the business and indicating the full purchase price agreed upon :—*

		Rs.	Rs.
Business Purchase Account	Dr.	......	
To Vendors			......

(2) Entry recording the several assets and liabilities of the business taken over and explaining how the total purchase price is made up:—

		Rs	Rs
Each Asset Account	Dr.	....	
To Each Liability Account			....
„ Business Purchase Account			....

Notes:—(a) When the net intrinsic worth of the business as represented by the total worth of its assets *minus* the liabilities is less than the purchase price the company has agreed to pay, the excess amount must be debited to Goodwill Account

(b) If the net intrinsic worth of the business as determined by its total assets *minus* liabilities comes to more than the purchase consideration, the company stands to gain on the purchase, and such gain (not being a profit earned in the usual course of the business) must be credited to Capital Reserve Account.

(3) Entry to record the payment at purchase price —

		Rs.	Rs.
Vendors' Account	Dr	.....	
To Share Capital Account (to the extent to which the shares issued to the Vendors are considered as paid-up)			....
To Bank Account (for any payment in cash.)			....

Note.—If for the purpose of the issue of such shares either as fully or partly paid, the shares are valued at a premium, such premium must be credited separately to a Share Premium Account.

Q. 331. *The Indian Manufacturing Company was incorporated on 1st January 1967 with a Capital of Rs 5,00,000 divided into 2,000 $7\frac{1}{2}$% Cumulative Preference Shares of Rs 100 each and 6,000 Equity Shares of Rs 50 each to take over the business of Messrs B. & C. at the following valuation:—*

	Rs
Land and Buildings	1,50,000
Machinery and Plant	60,000
Stock-in-trade and Work-in-Progress	30,000
Book Debts	15,000
Goodwill	95,000
Rs	3,50,000

The consideration was to be the issue to the Vendors of 500 Preference Shares, 4,000 Equity Shares and the balance was to be paid in cash.

Of the remaining Capital, 1,500 Preference Shares and 1,500 Equity Shares were issued to the public, payable one-fifth on application, two-fifths on allotment and two-fifths on a call to be made on February 15th. Subscriptions were received for 1,600 Preference Shares and 1,300 Equity Shares, the application payments on 100 Preference Shares being returned to the applicants. All the remainder were allotted on January 25th. The payments due on allotment were received, and settlement made with the Vendors. The Call was made in due course and on March 1st Rs. 20,000 had been received on account of same from Preference Shareholders and Rs. 18,000 from Equity Shareholders. The Preliminary Expenses amounted to Rs. 4,500. Write up the books and accounts necessary to give effect to these transactions and show the statement of the Capital in the Balance Sheet as at March 1st.

A.

JOURNAL ENTRIES

1967		L.F.	Rs.	Rs.
Jan. 25	Preference Share Application Account .. .. Dr.		30,000	
	To Preference Share Capital Account			30,000
	(Being the transfer of application money received on 1,500 Preference Shares.)			
,, ,,	Equity Share Application Account .. .. Dr.		13,000	
	To Equity Share Capital Account			13,000
	(Being the transfer of application money received on 1,300 Equity Shares.)			
,, ,,	Preference Share Allotment Account .. .. Dr.		60,000	
	To Preference Share Capital Account			60,000
	(Being the amount due at Rs. 40 per share on 1,500 Preference Shares allotted as per Minute dated January 25th.)			
,, ,,	Equity Share Allotment Account .. .. Dr.		26,000	
	To Equity Share Capital Account			26,000
	(Being the amount due on 1,300 Equity Shares at Rs. 20 per share allotted as per Minute dated January 25th.)			
,, ,,	Business Purchase Account .. .. Dr.		3,50,000	
	To Vendors' Account			3,50,000
	(Being the Purchase Consideration payable to the Vendors for the assets acquired by the Company as per the agreement dated——— and adopted by the Board on———.)			
,, ,,	Land and Buildings Account .. .. Dr.		1,50,000	
	Plant and Machinery Account .. .. ,,		60,000	
	Stock-in-Trade Account .. .. ,,		30,000	
	Sundry Debtors Account .. .. ,,		15,000	
	Goodwill Account .. .. ,,		95,000	
	To Business Purchase Account			3,50,000
	(Being the incorporation of the assets taken over from the Vendors.)			

JOURNAL ENTRIES—*contd*

1967			L.F	Rs	Rs.
Jan 25	Vendors' Account To Preference Share Capital Account „ Equity Share Capital Account (Being the allotment to the Vendors of 500 Preference and 4 000 Equity Shares, all as fully paid up in part payment of Purchase Consideration as per the Board s Resolution of———)	.. Dr		2,50,000	50 000 2 00,000
Feb 15	Preference Share Call Account To Preference Share Capital Account (Being the amount due on Call on 1,500 Preference Shares made as per Board s Resolution of February 15th.)	Dr		60,000	60 000
	Equity Share Call Account To Equity Share Capital Account (Being the amount due on Call on 1,300 Equity Shares as per the Board s Resolution of February 15th.)	. Dr		26,000	26,000

CASH BOOK

	Rs		Rs.
To Preference Share Application Account (Being Application Deposit of Rs 20 per share on 1,600 shares applied for)	32,000	By Preference Share Application Account (Being return of Application Deposit)	2,000
„ Equity Share Application Account (Being Application Deposit of Rs 10 per share on 1,300 shares applied for)	13,000	„ Preliminary Expenses (Being the amount expended on Registration and Promotion)	4,500
„ Preference Share Allotment Account (Being Allotment Money received on 1,500 shares @ Rs. 40 per share)	60,000	„ Vendors' Account (Being the payment to Vendors on final settlement)	1,00 000
„ Equity Share Allotment Account (Being Allotment Money received on 1,300 Equity Shares at Rs 20 per share)	26,000	„ Balance c/d.	62,500
„ Preference Share First Call Account (Being amount received on account of First Call on Preference Shares)	20,000		
„ Equity Share First Call Account (Being the amount received on account of First Call on Equity Shares)	18,000		
Rs	1,69 000	Rs	1,69,000
To Balance b/d	62,500		

PREFERENCE SHARE APPLICATION ACCOUNT

	Rs.		Rs.
To Preference Share Capital Account—Transfer ..	30,000	By Bank ..	32,000
" Bank ..	2,000		
Rs.	32,000	Rs.	32,000

EQUITY SHARE APPLICATION ACCOUNT

	Rs.		Rs.
To Equity Share Capital Account—Transfer ..	13,000	By Bank ..	13,000
Rs.	13,000	Rs.	13,000

PREFERENCE SHARE ALLOTMENT ACCOUNT

	Rs.		Rs.
To Preference Share Capital Account—Transfer ..	60,000	By Bank ..	60,000
Rs.	60,000	Rs.	60,000

EQUITY SHARE ALLOTMENT ACCOUNT

	Rs.		Rs.
To Equity Share Capital Account—Transfer ..	26,000	By Bank ..	26,000
Rs.	26,000	Rs.	26,000

PREFERENCE SHARE CALL ACCOUNT

	Rs.		Rs.
To Preference Share Capital Account—Transfer ..	60,000	By Bank ..	20,000
		" Balance c/d. ..	40,000
Rs.	60,000	Rs.	60,000
To Balance b/d. ..	40,000		

EQUITY SHARE CALL ACCOUNT

	Rs		Rs
To Equity Share Capital Account—Transfer	26 000	By Bank	18 000
		„ Balance c/d	8 000
Rs	26 000	Rs	26 000
To Balance b/d	8,000		

PREFERENCE SHARE CAPITAL ACCOUNT

	Rs		Rs.
To Balance c/d	2 00 000	By Preference Share Application Account	30 000
		„ Preference Share Allotment Account	60 000
		„ Vendors Account	50 000
		„ Preference Share Call Account	60 000
Rs	2 00 000	Rs	2 00 000
		By Balance b/d	2,00 000

EQUITY SHARE CAPITAL ACCOUNT

	Rs		Rs
To Balance c/d	2 65 000	By Equity Share Application Account	13 000
		„ Equity Share Allotment Account	26 000
		„ Vendors Account	2 00 000
		„ Equity Share Call Account	26 000
Rs	2,65,000	Rs	2,65 000
		By Balance b/d	2,65 000

BUSINESS PURCHASE ACCOUNT

	Rs.		Rs
To Vendors Account	3,50 000	By Land and Buildings	1 50,000
		„ Plant and Machinery	60 000
		„ Stock in Trade and Work in Progress	30 000
		„ Sundry Debtors	15 000
		„ Goodwill	95 000
Rs.	3,50 000	Rs	3,50 000

VENDORS' ACCOUNT

	Rs.		Rs.
To Preference Share Capital Account ..	50,000	By Business Purchase Account ..	3,50,000
„ Equity Share Capital Account ..	2,00,000		
„ Bank ..	1,00,000		
Rs.	3,50,000	Rs.	3,50,000

THE INDIAN MANUFACTURING COMPANY LTD.

BALANCE SHEET

As at 1st March 1967

Liabilities	Rs.	Rs.	*Assets*	Rs.	Rs.
Authorised Capital:	Rs.		Fixed Assets:	Rs.	
2,000 7½% Cumulative Preference Shares of Rs. 100 each ..	2,00,000		*Goodwill at cost* ..	95,000	
6,000 Equity Shares of Rs. 50 each ..	3,00,000		Land & Buildings at cost	1,50,000	
Rs.	5,00,000		Machinery and Plant at cost ..	60,000	3,05,000
Issued Capital:			*Current Assets:*		
2,000 7½% Cumulative Preference Shares of Rs. 100 each ..	2,00,000		Stock-in-Trade and Work-in-Progress at cost ..		30,000
5,500 Equity Shares of Rs. 50 each ..	2,75,000		Book Debts ..		15,000
Rs.	4,75,000		Cash and Bank Balances:		
Subscribed and Called-up Capital:			Cash at Bank ..		62,500
1,500 7½% Preference Shares of Rs. 100 each fully called-up ..	1,50,000		Miscellaneous Expenditure & Losses:		
500 7½% Preference Shares of Rs. 100 each issued to the vendors as fully paid-up ..	50,000		Preliminary Expenses ..		4,500
1,300 Equity Shares of Rs. 50 each fully called-up	65,000				
4,000 Equity Shares of Rs. 50 each issued to the vendors as fully paid-up ..	2,00,000				
Rs.	4,65,000				
Less Calls unpaid as under: Rs.					
On Preference Shares 40,000					
On Equity Shares 8,000	48,000	4,17,000			
Rs.		4,17,000	Rs.		4,17,000

Q. 332. *The Blank Company Ltd., was registered with a Capital of Rs. 10,00.000 consisting of 50,000 Equity Shares of*

Rs 10 each and 50,000, 7½% Preference Shares of Rs 10 each. It purchased the going concern of Messrs. Black and Brown for Rs 2,50,000 on the basis of the following Balance Sheet:—

BALANCE SHEET OF BLACK & BROWN

Liabilities	Rs	*Assets*	Rs
Bills Payable	19,000	Cash at Bank ..	4,000
Sundry Creditors	80 000	Bills Receivable .	5,000
Capital .	2,20,000	Book Debts .	50,000
		Stock ..	70,000
		Furniture and Fixtures ..	10,000
		Plant and Machinery .	1,20,000
		Freehold Premises .	60,000
Rs	3,19,000	Rs	3,19,000

The purchase price was to be paid Rs 50,000 in fully-paid Equity Shares, Rs 50,000 in fully-paid Preference Shares, Rs 50,000 in fully-paid Debentures and the balance in cash The remainder of the shares were offered to the public payable Rs 2 per share on Application, Rs 3 on Allotment and Rs 4 on First Call, and were taken up and paid for The vendors were duly paid the purchase consideration Record the above transactions by means of Journal Entries and draw up the Company's Balance Sheet

A.

JOURNAL ENTRIES

		L.F.	Rs	Rs
Business Purchase Account ..	Dr		2,50,000	
To Black & Brown (Vendors)				2,50,000
(Being the agreed consideration for the purchase of business taken over from Vendors)				
Freehold Premises .	Dr		60,000	
Plant & Machinery ..	„		1,20,000	
Furniture and Fixtures .	„		10,000	
Stock ..	„		70,000	
Book Debts ..	„		50,000	
Bills Receivable ..	„		5,000	
Cash at Bank .	„		4 000	
Goodwill	„		30 000	
To Bills Payable				19,000
„ Sundry Creditors				80,000
„ Business Purchase Account				2,50,000
(Being the incorporation of the Sundry Assets and Liabilities making up the Purchase Consideration)				
Bank Account ..	Dr		1,80,000	
To Preference Share Application Account				90 000
„ Equity Share Application Account				90,000
(Being the application moneys received on 45,000 Preference Shares and 45,000 Equity Shares at Rs 2 per share)				

JOURNAL ENTRIES—*contd.*

	L.F.	Rs.	Rs.
Preference Share Application Account .. .. Dr.		90,000	
Equity Share Application Account .. .. „		90,000	
To Preference Share Capital Account			90,000
„ Equity Share Capital Account			90,000
(Being the transfer of Share Application amounts to the respective Capital Accounts.)			
Preference Share Allotment Account .. .. Dr.		1,35,000	
Equity Share Allotment Account .. .. „		1,35,000	
To Preference Share Capital Account			1,35,000
„ Equity Share Capital Account			1,35,000
(Being the allotment money due on 45,000 Preference Shares and 45,000 Equity Shares at Rs. 3 per share as per Board's Resolution dated———.)			
Bank Account .. .. .. Dr.		2,70,000	
To Preference Share Allotment Account			1,35,000
„ Equity Share Allotment Account			1,35,000
(Being the allotment money received on Preference and Equity Shares)			
Black and Brown (Vendors) .. .. .. Dr.		2,50,000	
To Preference Share Capital Account			50,000
„ Equity Share Capital Account			50,000
„ Debentures Account			50,000
„ Bank			1,00,000
(Being the payment of purchase consideration to the Vendors by the issue of 5,000 fully-paid Preference Shares, 5,000 fully-paid Equity Shares, Rs. 50,000 Debentures and the Balance in Cash.)			
Preference Share First Call Account .. .. Dr.		1,80,000	
Equity Share First Call Account .. .. „		1,80,000	
To Preference Share Capital Account			1,80,000
„ Equity Share Capital Account			1,80,000
(Being the amount due as First Call on 45,000 Preference Shares and 45,000 Equity Shares at Rs. 4 per share as per Board's Resolution dated———.)			
Bank Account .. .. .. Dr.		3,60,000	
To Preference Share First Call Account			1,80,000
„ Equity Share First Call Account			1,80,000
(Being the First Call amount received on 45,000 Preference and 45,000 Equity Shares.)			

BALANCE SHEET OF THE BLANK COMPANY LTD AS AT

Liabilities		Rs	*Assets*		Rs.
Authorised Capital			Fixed Assets (at Cost) —	Rs	
7½ per cent 50 000 Preference Shares of Rs 10 each		5 00 000	Goodwill	30 000	
50 000 Equity Shares of Rs 10 each		5 00 000	Freehold Premises	60 000	
			Plant and Machinery	1 20 000	
			Furniture and Fixtures	10 000	
Rs		10 00 000			2,20,000
			Current Assets		
Subscribed Capital			Stock at Cost	70 000	
50 000 Preference Shares of Rs 10 each		5 00 000	Sundry Debtors	50 000	
					1,20 000
50 000 Equity Shares of Rs 10 each		5 00 000	Loans and Advances		
			Bills Receivable		5 000
Rs		10 00 000			
			Cash and Bank Balances		
Paid up Capital			Cash at Bank		7 14 000
5 000 Preference Shares of Rs 10 each issued as fully paid		50 000			
45 000 Preferenc Shares of Rs 10 each Rs 9 per share called up		4 05 000			
5 000 Equity Shares of Rs 10 each issued as fully paid		50 000			
45 000 Equity Shares of Rs 10 each Rs 9 per share called up		4 05 000			
		9 10 000			
Debentures		50 000			
Current Liabilities and Provisions	Rs				
Bills Payable	19 000				
Sundry Creditors	80 000				
		99 000			
Rs		10 59 000		Rs	10,59 000

Q 333 *The X Y Z Co, Ltd, acquired the running business of P & Q on the basis of the following Balance Sheet —*

Liabilities		Rs	*Assets*	Rs.
Creditors		11 000	Stock	25 000
Capitals	*Rs*		Debtors	5 000
P	30 000		Fixtures	1 000
Q	20 000		Plant	30 000
		50 000		
Rs		61 000	Rs	61 000

The vendors were to be paid Rs 40 000 in full satisfaction of the purchase price in 1,000 shares of Rs 10 each valued at the market price of Rs 12 50 P each and the balance in cash Show the entries in the books of the Company relating to this transaction assuming that the purchase price was paid

A. JOURNAL ENTRIES

	L.F.	Rs.	Rs.
Business Purchase Account .. .. .. Dr.		40,000	
To Vendors (P. & Q.)			40,000
(Being the purchase of the entire business at the agreed price.)			
Stock .. .. Dr.		25,000	
Sundry Debtors .. .. „		5,000	
Fixtures .. .. „		1,000	
Plant .. .. „		30,000	
To Creditors			11,000
„ Capital Reserve Account			10,000
„ Business Purchase Account			40,000
(Being the incorporation of the assets and liabilities taken over.)			
Vendors' Account .. .. .. Dr.		40,000	
To Share Capital Account			10,000
„ Premium on Shares Account			2,500
„ Bank Account			27,500
(Being the full payment in satisfaction of the purchase price as per agreement dated————.)			

Notes:—(a) In this case, as the purchase price is less than the value of the assets *minus* the liabilities taken over, the difference has been credited to Capital Reserve Account.

(b) As the shares have been issued at a higher price than the face value, the excess has been credited to Premium on Shares Account.

Q. 334. *What are Forfeited Shares? Describe the procedure as to the Forfeiture of Shares and state the entries necessary in the Company's books to record such a forfeiture.*

A. Forfeited Shares are those shares which are declared by the Directors to have been forfeited by the company on account of non-payment of calls due by a shareholder. The powers of the directors as to forfeiture of shares are usually guided by the Company's Articles and these have to be rigidly followed.

When any member fails to pay the call or other instalment on the due date, the directors may thereafter serve a notice on him requiring payment of the call or instalment together with any interest which may have accrued. The notice must also name a further day, not earlier than 14 days from the date of the notice, on or before which the payment should be made and must state that in the event of non-payment before the time appointed, the shares will be liable to be forfeited. If the member fails to comply with the requirements of the notice, the directors may by a resolution forfeit the shares and give notice of such forfeiture to the member concerned. As a result of such forfeiture, the member loses all his rights and interest in the shares forfeited.

The following entries are necessary on Forfeiture of Shares:—

Debit the Share Capital Account with the total amount called up on those shares, credit the Forfeited Shares Account with the amount already received by the company on those shares and credit the Allotment Account or the Call Account as the case may be, with the amount owing on those shares

The Share Capital Account will thus be written back to the extent of the amount called on the forfeited shares and the credit balance of Forfeited Shares Account will represent the amount received by the company in respect of the forfeited shares The debit balance on the Allotment Account or the Call Account will be wiped off by the credit given to such account with the amount outstanding, as a result of the above entry

Q 335 *How would you show Forfeited Shares in the Company's Balance Sheet?*

A The nominal amount of the Forfeited Shares would be shown as a deduction from the total Issued Capital, and the called up amount on the Forfeited Shares as a deduction from the total called up Capital The credit balance of Forfeited Shares Account must appear as a separate item on the liabilities side immediately underneath the Share Capital item, until the re-issue of such shares

Q 336 *The X Y Z Company Ltd, with a Registered Capital of 20,000 shares of Rs 10 each has issued 10,000 shares on which Rs 7 50 P per share have so far been called up Of the total shares subscribed, all the shareholders paid the calls made on them with the exception of the following whose instalments as marked hereunder were in arrears and whose shares were therefore forfeited —*

A *holding 200 shares—(Allotment Rs 2 per share, First Call Rs 2 per share and Second Call Rs 2 50 P per share)*

B holding 300 shares—(1st and 2nd Call)

C holding 400 shares—(2nd Call)

Pass the entry recording the forfeiture and show how the items will appear in the Balance Sheet.

A. JOURNAL ENTRIES

		L F	Rs	Rs
	Share Capital Account Dr		6 750	
	To Forfeited Shares Account			3,100
	„ Share Allotment Account			400
	„ Share First Call Account			1 000
	„ Share Second Call Account			2,250
	(Being the forfeiture of 200 shares of A, 300 shares of B and 400 shares of C for non payment of Calls as per the Board s Resolution dated———)			

there is nothing illegal in it, since the distribution of Premium on Shares by way of dividend will not be regarded as a reduction of capital.

Note:—The important point to be noted is that Capital Profits should not be transferred to General Reserve Fund which is always deemed to represent accumulations of undistributed revenue profits and which may at any time be utilised by the Directors in distributing dividends.

Q. 340. *What is the nature of the Profit and Loss Appropriation Account opened in the books of a Limited Company?*

A. In a Limited Company, the net profits when ascertained at the end of each financial period are transferred to an Account styled "Profit and Loss Appropriation Account", which is practically the third section of the Revenue Account. This account serves to show what profits were available for disposal in each financial period and how they were appropriated. The first item on the credit side of this account will be the balance of undisposed off profit, if any, brought forward from the previous period. This will be followed by the net profit of the business for the period under review which is transferred from the Profit and Loss Account by means of a Journal Entry. The debit side of this account will show the different heads under which the available profit is appropriated, e.g. Dividends declared, transfers to Debenture Redemption Fund, Dividend Equalisation Fund, General Reserve Fund, etc. Income-tax is an appropriation of profit and any provision in respect thereof will also appear on this account. Commission payable to the General Manager or the Managing Director by way of a percentage on net profits will also be debited to this account. The credit balance then left on this account will represent unappropriated profits and will be shown on the liabilities side of the Balance Sheet and will again form the opening balance of the succeeding period.

Q. 341. *What are Dividends and what procedure is usually followed after the declaration of a dividend? Give the form of any statistical record necessary in this connection.*

A. Dividends are proportions of profits distributed to the shareholders according to their holdings. The declaration of a dividend may be by way of either a fixed amount per share or a percentage on the Capital of the Company.

The power to declare a dividend rests with the company in general meeting, but unless the Directors recommend a dividend, the shareholders have no right to declare it. Besides, dividends can be declared and made payable only from out of net profits. An Ordinary Resolution is sufficient for the purpose of declaring a dividend, and once the dividend is declared, it becomes a liability of the company to the shareholders.

Immediately after the declaration of a dividend, a statistical book called Share Dividend Book is written up in order to ascertain the exact amount of

dividend payable to each shareholder The details to be entered in this book are ascertained from the Register of Members The form of this book is given on page 335 and the columns are self-explanatory If any instructions are received from a member as to the payment of dividend direct to his bankers, such instructions will be noted in the Remarks column. Dividend Warrants are then issued to the shareholders requesting them to cash these either at the Registered Office of the company or at the bankers specified therein In the latter case, arrangements would be made with the bankers to transfer the whole amount of the dividend payable from the Current Account to a separate Dividend Account. At periodical intervals, the paid warrants would be obtained from the bankers and would be debited to the Dividend Account and credited to the special Bank Account after being checked with the Pass Book entries The balance on the Dividend Account as per the Bank Pass Book will represent unpaid dividends and should tally with the credit balance on the Dividend Account in the Ledger The Dividend Account of each year is given a consecutive number in order to distinguish it from the previous or future Dividend Accounts

Q 342 *Describe the difference, if any, in the book-keeping records of a dividend paid* (a) *free of Income-tax, and* (b) *less Income-tax, and state what you understand by those terms*

A (a) Before 31st March 1959, a Company could declare Dividend Free of Income-tax It meant that the gross amount of the dividend declared was paid to the shareholders without deducting any Income-tax. On a dividend being declared, the entry was to debit Profit and Loss Appropriation Account and credit the particular Dividend Account with the total amount of the Dividend payable Separate Dividend Accounts was kept for the dividends on different classes of shares As and when the dividend was paid, the Dividend Account was debited and Bank Account was credited If some of the shareholders had not claimed their dividends, the Dividend Account showed a credit balance representing dividends unpaid This is a liability of the company to the shareholders appeared on the liabilities side of the Balance Sheet under the heading of Unclaimed Dividends

(b) After 31st March 1959, a dividend is declared less Tax, it means that each shareholder will receive only the net amount after deducting from the gross dividend the amount of Income-tax at the appropriate rate ruling at the time of declaration of dividend. The dividend on preference shares, in the absence of any provisions in the Articles to the contrary, should always be paid less tax. The Income-tax deducted from a dividend declared less tax is to be paid to the Inland Revenue authorities within eight days from the date of payment of such dividend

In the books of accounts, the following entries will be necessary on the declaration of a dividend less tax:—

		Rs.	Rs.
Profit and Loss Appropriation Account	Dr.	......	
To Dividend Account			......
(with the gross amount of dividend declared)			
Dividend Account	Dr.	......	
To Bank			......
(with the amount of Income-tax calculated at the appropriate rate on the gross dividend and paid to Income-tax authorities).			

The credit balance of Dividend Account will now stand at the total net figure of dividend payable and on each shareholder being paid his net amount of dividend (after deduction of Income-tax), Dividend Account will be debited and Bank Account credited. The account will be closed when all the shareholders have received their dividend.

Q. 343. *Explain what you understand by* (a) *Dividend Equalisation Fund, and* (b) *Reserve Fund.*

A. A Dividend Equalisation Fund is created by some companies for the purpose of equalising the distribution of profits as between lean and prosperous years. It is a prudent financial policy for a company to distribute only a part of the profits made in prosperous years and to hold back a portion thereof in reserve to be drawn upon in the years in which the profits are not sufficient to declare the usual dividend. In this way, the company is enabled to pay a fixed rate of dividend for all the years whether bad or good, thereby preventing wide fluctuations in the market value of its shares.

The fund is created by debiting Profit and Loss Appropriation Account and crediting Dividend Equalisation Fund Account with the amount of profits required to be set aside. The fund may be either invested outside the business or left in the business at the discretion of the directors.

When the fund is drawn upon in less prosperous years for the purpose of declaring a dividend, the entry necessary would be to debit Dividend Equalisation Fund Account and credit Profit and Loss Appropriation Account with the amount required to be transferred from the Fund.

A Reserve Fund is created out of distributable profits with a view to strengthen the financial position of the company or for the purpose of providing for any contingency that may arise. The entry necessary to transfer any sum from divisible profits to Reserve Fund is to debit Profit and Loss Appropriation Account and credit Reserve Fund.

It may be pointed out that in the absence of a Dividend Equalisation Fund as above explained, a Company can fall back upon its Reserve Fund, if need be, for the purpose of enabling it to pay a dividend or to equalise dividend

The question as to whether the Reserve Fund or the Dividend Equalisation Fund should be invested in specific securities outside the business or whether the amount of undistributed profits as represented by the Reserve Fund or the Dividend Equalisation Fund should be allowed to get merged in the general assets of the company, would depend on the financial condition of the company Where the company is sufficiently capitalised in the sense that any additional working capital cannot be usefully employed in the business, it would seem advisable to invest these Funds in gilt-edged securities Where, however, the company seems to be hampered for want of working capital, it would appear to be a bad financial policy to deplete its cash resources by *investing these Funds in outside securities*

When any investments are specifically purchased to represent Reserve Fund or Dividend Equalisation Fund, care should be taken to see that the amount is debited to a Reserve Fund Investment Account or Dividend Equalisation Fund Investment Account, as the case may be, so as to distinguish these investments from those acquired for any other purpose

Q 344 *The Profit and Loss Account of Confections Ltd, disclosed a net profit of Rs 66,500 for the year ended 30th June 1967 The paid-up capital of the company consisted of Rs 6,00,000 divided into 3,000 6% Preference Shares of Rs 100 each fully paid and 30,000 Equity Shares of Rs 10 each, Rs 7 per share paid up There was a credit balance of Rs 11,500 brought forward on Profit and Loss Account from the previous period The directors made the under-mentioned recommendations for the disposal of the available profits, which were approved by the shareholders at the annual meeting —*

(a) To pay the year's dividend on Preference Shares less tax

(b) To pay a dividend for the year ended 30th June 1967 of 10% less tax on the Equity Shares

(c) To make provision for Income-tax of Rs 7,500

(d) To transfer Rs 15,000 to Reserve Fund

(e) To carry forward the balance to next year's account

Show the Profit and Loss Appropriation Account for the year ended 30th June 1967 and the Dividend Accounts, assuming the Dividends to have been paid

A. *THE CONFECTIONS LTD.*

PROFIT AND LOSS APPROPRIATION ACCOUNT

For the year ended 30th June 1967

		Rs.			Rs.
1967 June 30	To Preference Share Dividend Account ..	18,000	1966 July 1	By Balance from last year..	11,500
	„ Equity Share Dividend Account ..	21,000	1967 June 30	„ Profit and Loss Account—Transfer of net profit this year ..	66,500
	„ Reserve for Income-tax	7,500			
	„ Reserve Fund—Transfer ..	15,000			
	„ Balance c/d. ..	16,500			
	Rs.	78,000		Rs.	78,000
				By Balance c/d. ..	16,500

PREFERENCE SHARE DIVIDEND ACCOUNT

	Rs. P.		Rs. P.
To Bank—Income-tax Account @ 30% ..	5,400.00	By Profit and Loss Appropriation Account ..	18,000.00
„ Bank—paid to Preference Shareholders ..	12,600.00		
Rs.	18,000.00	Rs.	18,000.00

EQUITY SHARE DIVIDEND ACCOUNT

	Rs.		Rs.
To Bank—Income-tax @ 30% ..	6,300	By Profit and Loss Appropriation Account ..	21,000
„ „ —paid to Equity Shareholders ..	14,700		
Rs.	21,000	Rs.	21,000

Q. 345. *The Directors of a company with fully paid capital of 5,00,000 Equity Shares of Re. 1 each, decided to pay for the half year ended 30th June 1967 an Interim Dividend of 10% per annum less tax. Under what circumstances would the directors be justified in paying such a dividend? Give the necessary entries in the financial books to record the payment of an Interim Dividend.*

A. The power to declare Interim Dividends is generally given by the Articles and Table A empowers the Directors to pay Interim Dividends at their discretion. This dividend is usually declared by the Directors without the sanction of the company in general meeting. Since an Interim Dividend is in anticipation of the profits for the whole financial year, directors must be careful to see that the profits already made sufficiently justify the payment of an interim dividend and that there is no likelihood of any loss being made

in the succeeding half year as would wipe off the profits already made in the first half year If the company makes loss for the year, the dividend will be taken to have been declared and paid out of capital, and the directors will be personally liable to make good the whole amount paid by way of dividend

Before declaring an interim dividend, interim financial accounts should be prepared in which all the usual provisions in respect of outstanding liabilities for Expenses, Depreciation etc should be made Although the account may disclose large profits it is always desirable that the interim dividend be declared on a very conservative basis, leaving a major portion of the profits undistributed to provide for contingencies

The following Journal Entries are necessary —

JOURNAL ENTRIES

		L F	Rs P	Rs P
Profit and Loss Appropriation Account To Interim Dividend Account (Being interim dividend for the half year ended 30th June 1967 at 10% per annum *less* tax on 5 00 000 Equity Shares of Re 1 each fully paid, declared by the Board on ——)	Dr		25 000 00	25 000 00
Interim Dividend Account To Bank—Income tax Account (Being tax upon the interim dividend declared as above)	Dr		7,500 00	7,500 00
Interim Dividend Account To Bank (Being payment of the Interim Dividend)	Dr		17 500 00	17 500 00

Q 346 R Keshao, Shopkeeper of 7, Mangal Peth, Poona, applied on 1st January 1967 for 10 shares of Rs 10 each in the Agricultural Equipment Co , Ltd , paying Rs 2 per share on application

The shares were allotted to him on 12th January 1967, numbered 171 to 180, as per Allotment Letter No 56 He duly paid the allotment money of Rs 3 per share on January 15th

On February 25th he bought further 30 shares, Rs 5 per share paid, numbered 101 to 130, from P Sorabji, Pleader of 5, Nal-Bazar, Bombay, at Rs 6 per share, the Transfer No 20 for the same being lodged with the Company on March 1st, and approved by the Board on March 15th

On April 10th a Call of Rs 5 per share was made, which he paid on April 20th, thus making his shares fully paid

On May 5th, he sold the whole of his holding to B Mukerji, Draper of 8 Hornby Road, Bombay, at Rs 9 per share, the Transfer No 21 being lodged with the company and approved by the Board on May 15th

Show R. Keshao's Account in the Co's Register of Members.

Show also the Share Transfer Register of the Company, inserting the details of the foregoing transactions.

[*For Answer, see next page.*]

Q. 347. *What Statistical Books are necessary for recording transactions relating to the issue of Debentures?*

A. For maintaining an accurate and detailed record of the transactions relating to the issue of Debentures, the following Statistical Books are essential:—

(1) Debenture Application and Allotment Book.

(2) Debenture Call Book.

(3) Debenture-holders' Register.

(4) Debenture Transfer Register.

(5) Debenture Interest Book.

Debenture Application and Allotment Book.—This book serves to record full details of applications for debentures and their subsequent allotment. It contains columns for the serial number of each application, the name, address and occupation of each applicant, the number of debentures applied for, the amount deposited on application, the date of allotment, the number of debentures allotted, their distinctive numbers, the amounts received on allotment and the arrears in that respect, if any.

Debenture Call Book.—This book records full details as to the amount due from each debenture-holder in respect of the call made, the amount actually paid and the amount of call in arrears, if any.

A

REGISTER OF MEMBERS

Name K KESHAO
Address 7 Mangal Peth Poona
Occupation Shopkeeper

Date of entry as a Member 12th January 1967
Date ceases to be a Member 15th May 1967

CASH PAYABLE ON SHARES					CASH PAID ON SHARES			
Date	Description of Instalment	No of Shares	Amount due per Share	Total Amount due	Date paid	Cash Book Folio	Amount paid	Remarks
1967			Rs	Rs	1967		Rs	
Jan 1	Application	10	2	20	Jan 1	1	20	
Jan 12	Allotment	10	3	30	Jan 15	20	30	
April 10	Call	40	5	200	April 20	45	200	

SHARES ACQUIRED					SHARES TRANSFERRED					BALANCE HELD			
Allotment or Transfer No	No of Shares	Distinctive Nos. From	Distinctive Nos. To	Total Amount paid on Transfer	Date of Transfer passed	Trn No	No of Shares transferred	Distinctive Nos From	Distinctive Nos To	Total Amount paid on Shares	Date	No of Shares	Amount paid
					1967					Rs	1967		
Allotment 56	10	171	180		May 15	21	40	171	180	400	Jan 15	10	50
Transfer 20	30	101	130	150				101	130		April 20	40	400
											Mar 15	Nil	

SHARE TRANSFER REGISTER

No. of Transfer	Date of Registration of Transfer	Shares transferred				Transferor's				Transferee's				Date of New Certificates	Remarks
		No.	Distinctive Nos.		Amount paid for Share	Folio in Register of Members	Name	Address	Occupation	Folio in Register of Members	Name	Address	Occupation		
			From	To											
	1967														
T. 20	Mar. 15	30	101	130	150	95	P. Sorabji	5, Nal-Bazar, Bombay.	Pleader	107	R. Keshao	7, Mangal Peth, Poona	Shop-keeper		
T. 21	May 15	40	{101 {171	130 180	400	107	R. Keshao	7, Mangal Peth, Poona.	Shop-keeper	124	B. Mukerji	8, Hornby Rd., Bombay.	Draper		

SHARE DIVIDEND BOOK (Ordinary Shares)

Dividend at .... per cent per annum payable on the .... 19 ....., in respect of the year ended .... 19.......

Folio in Register of Members	Name	Address	No. of Shares held	Amount paid on Shares	No. of Dividend Warrant	Amount of Dividend	Income-tax to be deducted at ——— in the Re.	Net Amount Payable	Date paid	Cash Book Folio	Remarks

Contd from p 333]

Debenture Interest Book—This book gives particulars at the end of each half year as to the names of the debenture-holders, the amount of debentures held by each of them the gross amount of interest due, the amount of tax to be deducted and the net amount of interest payable to each debenture-holder

Q 348 *Give a specimen form of each of the following* —

(a) *Debenture-holders' Register*

(b) *Debenture Transfer Register*

(c) *Debenture Interest Book*

(d) *Register of Mortgages and Charges*

A See Pages 337 and 338

Q 349 *Discuss fully the treatment in accounts of profits earned by a Company prior to Incorporation or Certificate of Commencement of Business*

A When a company takes over a running business from a date prior to the date of its own incorporation, the profits earned prior to incorporation cannot be said to have been earned by the company as it had no legal existence then, and such profits are therefore not legally available for the purpose of distribution as dividend In case of a public company, it is not supposed to have legally earned profits until it has received a Certificate entitling it to commence business Evidently, therefore, such profits are in the nature of Capital Profits and should be transferred to Capital Reserve Fund

It need be noted, however, that in return for the loss of profits which the vendors sustain from the date of sale of their business to the date of actual payment of the purchase consideration by the company, the vendors are entitled to a certain rate of interest on the purchase price from the date the sale is effected to the date of payment, and, inasmuch as such interest payable by the company is in return for the profits it enjoys from the date of purchase, it becomes necessary to see that the interest from the date of purchase to the date of incorporation or commencement certificate is set off as a first charge against the profits, if any, made by the company, between the above two dates The credit balance of such profits, if any, then left after the charge in respect of the above interest should be transferred to Capital Reserve and not to the general or ordinary Reserve as the latter is available at any time for equalisation of dividend If, however, the directors feel that the book values of some of the assets acquired are far in excess of their true present worth, they can well utilise the balance of the above profits in writing down such assets so as to bring them on a par with their present values or in reducing the value of goodwill account, if there is any

REGISTER OF DEBENTURE HOLDERS

Name:

Address:
Occupation:

Debentures Acquired						Debentures Transferred or Redeemed						Balance Held	
Date	Particulars	No. of Deb.	Distinctive Nos.		Amount paid up	Date	Particulars	No. of Deb.	Distinctive Nos.		Amount paid up	No. of Deb.	Amount paid up
			From	To					From	To			

DEBENTURE TRANSFER REGISTER

No. of Transfer	Date of Register of Transfer	Transferor				Transferee				Debentures Transferred				Remarks
		Folio Deb. Regr.	Name	Address	Occupation	Folio Deb. Regr.	Name	Address	Occupation	No. of Deb.	Distinctive Nos.		Amount paid up	
											From	To		

DEBENTURE INTEREST BOOK

Folio Deb Regr	Name	No of Deb	Amount of Debenture	Half Year's Interest	Amount of Tax	Net Interest payable	Date paid	C B Folio	Remarks

REGISTER OF MORTGAGES AND CHARGES

No of Charge	Date Charge created	Mortgagee		Amount of Charge	Particulars of Property Charged	Rate of Interest	Date Charge disposed off	Remarks
		Name	Address					

Q. 350. *Describe the best method of estimating the profits prior to incorporation in the absence of actual stock-taking as at the date of incorporation.*

A. The ascertainment of the actual profits made before incorporation is practicable only provided stock is taken and valued as at the date of the Company's incorporation. As, however, in a majority of cases that is not done, the first Trading and Profit & Loss Account naturally includes the figures for the whole period, viz. from the date of purchase of the business to the close of the financial period. The net profits thus ascertained would then have to be apportioned into two periods, viz. before and after the incorporation on some equitable basis. This apportionment may be done either on the basis of the periods themselves or on the basis of the respective turnover of each of the periods. The only profits then available for dividend would be those ascertained to have been earned subsequent to incorporation, or in case of a public company, subsequent to receipt of its Commencement Certificate.

A still more reliable and accurate method for approximation of profits prior to incorporation is to apportion the gross profit between the two periods on the basis of their respective turnovers and then to set off against such gross profit the revenue expenses of each period. In so allocating the expenses, fixed expenses such as Office Rent, Staff Salaries, Rates, Taxes, Insurance, etc. should be apportioned on the basis of time covered by each period. On the other hand, expenses as have a direct bearing on the sales such as commission to canvassers and sales managers, Travelling Expenses of canvassers, Advertising, etc. should be apportioned on the basis of the turnover of each period. The Expenses of each period having thus been set off against its relative figure of gross profit, the net profit made before and after the incorporation or commencement certificate will be ascertained.

Q. 351. *How should the Loss incurred prior to Incorporation or receipt of Business Commencement Certificate be dealt with while preparing the first year's accounts of a company?*

A. If a company buys over a running business before the date of its registration and a loss is incurred prior to the date of Incorporation or the date of Commencement Certificate, such loss should be capitalised by adding it to the amount of Goodwill paid on the purchase of business, or if no Goodwill is paid for, by debiting the amount to Goodwill Account. If it is not desired to capitalise the loss, then the amount should be left on a Suspense Account, which should be written off out of profits of a capital nature, e.g. Premium on Shares, Profits on Forfeited Shares, or Premium on Issue of Debentures, etc.

Q. 352. *The Simto Ltd., was registered on 1st January 1966, to buy over the business of Messrs. Symington & Todd as on 1st*

October 1966, and obtained its Certificate for Commencement of Business on 1st February 1967

The accounts of the company for the period ended 30th September 1967, disclosed the following facts —

(1) The turnover for the whole period amounted to Rs 2 40 000 of which Rs 40 000 related to the period from 1st October 1966 to 1st February 1967

(2) The Trading Account showed a gross profit of Rs 96 000

(3) The following items appeared in the Profit and Loss Account —

	Rs	
Directors Fees	1 500	
Auditor's Fees	750	
Rent Rates etc	4 800	
Bad Debts	2 000	(of which Rs 700 related to Book Debts created before 1st Feb 1967)
Staff Salaries	12 000	
Debenture Interest	6 000	
Depreciation on Plant and Machinery	3 600	
Preliminary Expenses	2 400	
General Expenses	1,800	
Commission on Sales	3 600	
Printing and Stationery	2 400	
Advertising	4,200	
Travellers Expenses and Salaries	8 400	
Interest to Vendors @ 6% on Rs 1 00 000 from 1st October 1966 to 31st May 1967	4 000	

A.

	Profits prior to Commencement Certificate		Profits after Commencement Certificate	
	Rs	Rs.	Rs.	Rs
Gross Profit Rs 96 000 apportioned on the basis of turnover		16 000		80 000
Less Expenses —				
1 Directors Fees			1,500	
2 Auditor s Fees			750	
3 Rent Rates etc.	1 600		3,200	
4 Bad Debts	700		1 300	
5 Staff Salaries	4,000		8 000	
6 Debenture Interest			6 000	
7 Depreciation on Plant and Machinery	1,200		2,400	
8 Preliminary Expenses			2 400	
9 General Expenses	600		1,200	
10 Commission on Sales	600		3 000	
11 Printing and Stationery	800		1 600	
12 Advertisements	700		3 500	
13 Travelling Expenses and Salaries	1,400		7 000	
14 Interest on Purchase Price	2 000		2 000	
Net Profit for the period	2,400		36 150	
Rs.	16,000	16 000	80 000	80 000

Notes:—(a) Expenses which relate solely to the company are not apportioned.

(b) Expenses having direct bearing on the sales are apportioned on the basis of the sales for each period.

(c) Other expenses are apportioned on the basis of time.

Q. 353. *What entries are made in regard to Provision for Redemption of Debentures?*

A. The provision for Redemption of Debentures is usually made by creating a Sinking Fund and either investing the same in gilt-edged securities or taking out a Sinking Fund Insurance Policy.

Under the first method, a certain fixed sum is set aside out of profits every year and a corresponding amount is invested in gilt-edged securities, which when accumulated with compound interest will produce the amount required to redeem the Debentures on their due date.

The entry necessary to make provision for the Redemption of Debentures is to debit the Profit and Loss Appropriation Account and credit the Sinking Fund Account or the Debenture Redemption Fund Account at the end of every year, with the amount ascertained for the purpose. When a corresponding sum is invested in gilt-edged securities, Debenture Redemption Investment Account will be debited and Bank Account will be credited.

The periodical interest when received on these investments will be credited to the Debenture Redemption Fund Account and not to Interest Account. The amount received in respect of Interest would also be immediately invested in the same class of securities, the entry being to the debit of Debenture Redemption Investment Account and to the credit of Bank Account.

Year after year, this procedure would be followed, and at the end of the term of Debentures, the Redemption Fund Account and the Redemption Fund Investment Account would be accumulated to an amount sufficient for the repayment of the Debentures.

On the sale of the specific Investments, Bank Account will be debited and Debenture Redemption Investment Account will be credited with the sale proceeds. The balance on the latter account will represent profit or loss on realisation of investments and should be transferred to Debenture Redemption Fund Account. This will close the Debenture Redemption Investment Account.

When the Debenture-holders are paid off, Debentures Account will be debited and Bank Account credited.

The purpose for which the Debenture Redemption Fund Account was created having been fulfilled, it is no longer necessary to allow this account

to stand in the books under the same old name, and the balance on this Account should, therefore be transferred to General Reserve Fund

The method of Sinking Fund Insurance Policy is, perhaps, a bit more costly, but is becoming more popular with large companies on account of its simplicity and also due to the fact that the policy is not subject to any risk of depreciation due to market fluctuations to which gilt-edged securities are open

The entries for the creation of the Sinking Fund are similar to those described above in respect of Debenture Redemption Fund Account But instead of investing the annual sum set aside out of profits in gilt-edged securities the same is paid by way of premium to an Insurance Company, which issues an endowment policy for an amount equal to the sum necessary to redeem the Debentures and maturing on the date when the Debentures become repayable The premium paid annually will be debited to Sinking Fund Policy Account and credited to Bank On the maturity of the policy, the amount will be received from the Insurance Company and the entry would be to debit Bank and credit Sinking Fund Policy Account The balance on the latter account, if any, will be transferred to Sinking Fund Account On payment to the Debenture-holders Debentures Account will be debited and Bank Account credited After the payment of the Debentures the credited balance on the Sinking Fund Account is transferred to the General Reserve Fund.

When the Debentures are repayable by annual drawings out of Capital and not out of profits, there is no necessity for creating a Redemption Fund At the end of each year when the Debentures are paid off, the entry would be to debit Debentures Account and credit Bank.

Q 354 *A Company issues 7½% Debentures of Rs 6,00,000 with a condition that they should be redeemed by setting aside at the end of every year Rs 20,000 out of profits and investing the amount in 4% Government Securities (Free of Tax) The interest received at the end of evry year should also be invested in the same securities Show the Debenture Redemption Fund Account and the Debenture Redemption Investment Account for the three years after the issue of the debentures The investments are made in multiples of Rs 100 only*

A DEBENTURE REDEMPTION FUND ACCOUNT

		Rs			Rs
1st Year	To Balance c/d	20 000	1st Year	By Profit and Loss Appropriation Account	20 000
	Rs	20 000		Rs	20 000

DEBENTURE REDEMPTION FUND ACCOUNT—*contd.*

		Rs.			Rs.
2nd Year	To Balance c/d. ..	40,800	2nd Year	By Balance b/d. ..	20,000
				" Interest on Rs. 20,000	800
				" Profit and Loss Appropriation Account ..	20,000
	Rs.	40,800		Rs.	40,800
3rd Year	To Balance c/d. ..	62,432	3rd Year	By Balance b/d. ..	40,800
				" Interest on Rs. 40,800 ..	1,632
				" Profit and Loss Appropriation Account ..	20,000
	Rs.	62,432		Rs.	62,432
			4th Year	By Balance b/d. ..	62,432

DEBENTURE REDEMPTION INVESTMENT ACCOUNT

			Rs.			Rs.
1st Year	To Bank ..		20,000	1st Year	By Balance c/d. ..	20,000
2nd "	To Balance b/d. ..		20,000	2nd "	By Balance c/d. ..	40,800
	" Banks :—	Rs.				
	Interest ..	800				
	Instalment ..	20,000				
			20,800			
		Rs.	[illegible]		Rs.	40,800
3rd "	To Balance b/d.		40,800	3rd "	By Balance c/d. ..	62,400
	" Bank :—	[illegible]				
	Interest ..	[illegible]				
	Instalment ..	[illegible]00				
			21,600			
		Rs.	62,400		Rs.	62,400
4th "	To Balance b/d. ..		62,400			

Note:—Since the first instalment will be invested at the end of the first year, no interest in respect thereof will be received in the first year.

Q. 355. *The X. Company Ltd., issued Debentures for Rs. 5,00,000 redeemable at a premium of 5% at the end of 10 years. The directors decided to apply a part of the annual profits to raise a Debenture Redemption Fund to redeem the Debentures including the premium payable.*

Draft the Journal Entries required to be passed each year (excluding the figures) to bring this arrangement into effect. Show also how the Ledger Accounts will appear at the end of the 10 years, before and after the redemption takes place. Give further Journal Entries showing the final redemption of Debentures.

A. JOURNAL ENTRIES

	L.F	Rs	Rs
FIRST YEAR			
Profit and Loss Appropriation Account .. Dr To Debenture Redemption Fund (For amount of profits set aside for redemption of Debentures)		....	....
Debenture Redemption Investment Account Dr To Bank Account (Being the investment of the above amount set aside out of profits for redemption of Debentures.)		....	....
SECOND AND SUBSEQUENT YEAR			
Bank Account .. Dr To Debenture Redemption Fund (For the amount of interest realised on the specific investments)		....	...
Profit and Loss Appropriation Account .. Dr To Debenture Redemption Fund (For the annual amount set aside out of profits to build up the Debenture Redemption Fund.)		.	.. .
Debenture Redemption Investment Account . Dr. To Bank (Being the investment of the sum set aside each year out of profits as also the interest realised on specific securities)		.	.

LEDGER ACCOUNTS BEFORE THE REDEMPTION

DEBENTURES ACCOUNT

		Rs
	By Bank ..	5,00,000

PREMIUM ON REDEMPTION OF DEBENTURES ACCOUNT

		Rs
	By Sundries ..	25,000

DEBENTURE REDEMPTION FUND ACCOUNT

		Rs
	By Sundries	5,25,000

DEBENTURE REDEMPTION INVESTMENT ACCOUNT

	Rs.		
To Sundries ..	5,25,000		

JOURNAL ENTRIES TO EFFECT REDEMPTION

		L.F.	Rs.	Rs.
Bank Account	Dr.		5,23,500	
To Debenture Redemption Investment Account				5,23,500
(For amount realised [assumed figure] on sale of Investment.)				
Debenture Redemption Premium	Dr.		25,000	
To Debentures Account				25,000
(For transfer of the Premium payable on redemption to the Debentures Account.)				
Debentures Account	Dr.		5,25,000	
To Bank				5,25,000
(For payment to the Debenture-holders inclusive of the Premium.)				
Debenture Redemption Fund	Dr.		1,500	
To Debenture Redemption Investment Account				1,500
(For transfer of loss on sale of Investments to the former account.)				
Debenture Redemption Fund	Dr.		5,23,500	
To Reserve Fund				5,23,500
(For transfer of the credit balance on the former account to the General Reserve Fund.)				

LEDGER ACCOUNTS AFTER REDEMPTION

PREMIUM ON REDEMPTION OF DEBENTURES ACCOUNT

	Rs.		Rs.
To Debentures Account—Transfer ..	25,000	By Sundries ..	25,000

DEBENTURES ACCOUNT

	Rs.		Rs.
To Bank ..	5,25,000	By Balance ..	5,00,000
		„ Premium on Redemption —Transfer ..	25,000
Rs.	5,25,000	Rs.	5,25,000

DEBENTURE REDEMPTION FUND ACCOUNT

	Rs		Rs
To Debenture Redemption Investment Account—Transfer	1,500	By Sundries	5,25 000
„ Reserve Fund—Transfer	5 23 500		
Rs	5,25 000	Rs	5 25 000

DEBENTURE REDEMPTION INVESTMENT ACCOUNT

	Rs		Rs
To Sundries	5 25 000	By Bank	5,23,500
		Debenture Redempt on Fund Account—Transfer	1,500
Rs	5,25 000	Rs	5 25 000

RESERVE FUND ACCOUNT

			Rs
		By Debenture Redemption Fund Account—Transfer	5,23 500
		Rs	5,23 500

Q 356 *A Company had issued* 10 000 *Redeemable Preference Shares of £*1 *each redeemable on* 31st *December* 1966 *The Reserve accumulated in the books of the company is £*6,500, *and the directors resolve to utilise £*5,000 *thereout for the purpose of redeeming the shares The balance of money is raised by issuing* 5 000 *Ordinary Shares of £*1 *each Pass Journal Entries to record the above transactions*

A JOURNAL ENTRIES

		L.F	£	£
Bank *To Ordinary Shareholders Account* (Being the amount received on the issue of 5 000 Ordinary Shares of £1 each)	Dr		5 000	5 000
Ordinary Shareholders Account To Ordinary Share Capital Account (Being the amount payable on the issue of 5 000 Ord nary Shares of £1 each)	Dr		5 000	5 000
Reserve Fund Account To Capital Redempt on Reserve Fund (Being the accumulated Profits earmarked for redeeming the Preference Shares)	Dr		5 000	5 000
Redeemable Preference Share Cap tal Account To Bank Account (Being the amount paid to Preference Shareholders on redemption of 10 000 Pref Shares of £ 1 each.)	Dr		10 000	10 000

Q. 357. *What are Contingent Liabilities and how should they be disclosed in a Company Balance Sheet?*

A. Contingent Liabilities are liabilities which have not arisen or have already accrued, but may arise out of transactions pending, upon the happening of a certain event. Thus a contingent liability may or may not involve the payment of money.

Among instances of Contingent Liabilities may be quoted:—(1) Liability for Calls or partly-paid shares held; (2) Liability on Bills Receivable discounted and not matured; (3) Liabilities under a Guarantee; (4) Liabilities for Penalties under Contracts; and (5) Liability in respect of arrears of Dividend on Cumulative Preference Shares.

While preparing a Balance-Sheet, only the liabilities that have actually accrued due to the date of the financial close should necessarily be brought into account. The Form of Balance Sheet prescribed under the Companies Act, 1956, requires that Contingent Liabilities which are already provided, should be shown under item "Current Liabilities and Provisions" on the Liabilities side of the Balance Sheet. However, "Cotingent Liabilities not provided for" should be shown as a foot-note on the Liabilities side of the Balance Sheet.

Q. 358. *On 31st December 1966, the X. O. Company Ltd., is three years in arrears with the dividends on its 15,000 7% Cumulative Preference Shares of Rs. 10 each, fully paid. Would this effect the annual accounts? If so, how?*

A. The amount of dividends in arrears on Cumulative Preference Shares is only a contingent liability inasmuch as the company is not liable to pay any dividend unless and until sufficient profits are available for the purpose of paying such dividends. As such, no entry is required to be made in the books of the company regarding these arrears. The Company's Balance Sheet, however, must disclose the existence of such a contingent liability by way of a footnote on the liabilities side thus:—

CONTINGENT LIABILITY:—

Dividends on 15,000. 7% Cumulative Preference Shares of Rs. 10 each have not been paid for the three years to 31st December 1966.

Q. 359. *Under what circumstances can a company pay interest on Capital out of Capital?*

A. Where any shares of the Company are issued for the purpose of raising money to defray the expenses of the construction of any works or buildings or the provision of any plant which cannot be made profitable for a lengthened period, the company can pay interest on the paid-up capital during the period of construction and capitalise the same by charging such interest to the cost of the works building or plant, provided that—

(a) The payment is authorised by the Articles or by a Special Resolution and sanctioned by the Central Government (Board of Trade in England),

(b) The Central Government (Board of Trade in England) may before giving the sanction cause inquiries to be made in the matter at the expense of the Company,

(c) The payment shall be made only for such period as may be determined by the Central Government (Board of Trade in England),

(d) The rate shall not exceed four per cent per annum or such lower rate as fixed by the Central Government (Order in Council in England),

(e) The accounts of the company shall show the share capital on which and the rate at which interest has been paid out of capital, and

(f) The payment of interest shall not operate as a reduction of share capital

Q 360 *What do you understand by the expression "Capitalisation of Reserves"? Discuss the desirability of such a step*

A Occasionally, in the case of a successful company, large reserves might have been accumulated out of profits as a result of the directors' policy not to distribute the whole of the profits, but to lay aside something to enable the company to meet any unforeseen contingency that may arise in the future or to serve as so much more working capital to cope with the increasing business Besides Reserve Fund may have accumulated to an amount far in excess of the present or the future needs of the company, and it would then deem desirable to give benefit of a part of such reserve to the existing shareholders by way of compensation for the loss of dividends which they have suffered This desire on the part of the directors can be given effect to by a Bonus to shareholders payable from out of Reserve Fund being proposed by the former and sanctioned by the General Meeting of Shareholders Instead, however, of paying cash and depleting the financial resources of the company, such bonus may be satisfied by the issue of additional shares considered as fully or partly paid up Thus the company is enabled to capitalise a part of its reserves by issuing Bonus Shares in lieu of cash

The capitalising of reserves by the above method benefits the company inasmuch as the past accumulated profits are permanently retained in the business Further, the share capital is thus adjusted to a figure more on a level with the actual capital employed in the undertaking Where the profits and the consequent dividends are large in comparison with the company's paid up Capital, the inference of profiteering is very strong, but where the paid up Capital is increased by the issue of bonus shares, although the profits will remain round about the previous level the percentage of dividend must necessarily be reduced, although the actual return to the individual shareholder will remain the same

The shareholders will have no occasion to be dissatisfied with such a procedure, as they can easily realise their Bonus Shares if they so wish to

Besides, the fact that the Company was enabled to issue Bonus Shares out of accumulated Reserves will tend to bring up the market value of those shares at a premium.

Q. 361. *What entries are made on the issue of Bonus Shares (a) at par and (b) at a premium out of the existing Reserve?*

A. (a) On the issue of Bonus Shares at par out of the existing Reserve, the following Journal Entries are necessary:—

(1) Debit Reserve Fund Account and credit Share Bonus Account with the total amount of Bonus declared.

(2) On the issue of Bonus Shares, debit Share Bonus Account and credit Share Capital Account with the value to the extent of which the shares are considered to be paid-up.

(b) If the Bonus Shares are issued at a premium, the first entry is just the same as described above, but on the issue of the shares, Share Bonus Account will be debited with the total amount of the Bonus declared; Share Capital Account will be credited with the value of the shares issued and Share Premium Account will be credited with the amount of premium on the total issue. The credit balance of the Share Premium Account will have to be dealt with as an item of Capital Profit, as already explained.

Q. 362. *The Indian Theatres, Ltd., have accumulated a Reserve Fund of Rs. 3,50,000. The Nominal Capital of the Company consists of 60,000 Equity Shares of Rs. 10 each, of which 50,000 shares have been issued and fully paid up. The Directors propose to distribute a part of the Reserve by the issue of one fully paid share of Rs. 10 each at a premium of Rs. 5 per share for every five shares held. Give the entries necessary to record the new issue of shares in the company's books.*

A. JOURNAL ENTRIES

		L.F.	Rs.	Rs.
Reserve Fund	Dr.		1,50,000	
To Share Bonus Account				1,50,000
(Being the Bonus declared out of the Reserve as per the Resolution dated————.)				
Share Bonus Account	Dr.		1,50,000	
To Share Capital Account				1,00,000
„ Share Premium Account				50,000
(Being the issue of one fully-paid share of Rs. 10 each for every five shares held in full satisfaction of the Bonus payable.)				

Q. 363. *What entries are made when a dividend is declared for making partly-paid shares fully paid?*

A. In order to make partly-paid shares fully paid, a company may declare a dividend out of profits and utilise the same towards the payment of Final Call made on the partly paid shares The entries necessary will be·—

JOURNAL ENTRIES

		L.F	Rs.	Rs.
1.	Profit and Loss Appropriation Account .. .. Dr To Dividend Account (For declaration of the Dividend)		....	....
2.	Share Final Call Account .. .. Dr *To Share Capital Account* (To record the Final Call made)		...	....
3	Dividend Account . . . Dr To Share Final Call Account (To record the Dividend having been satisfied by considering the Final Call as having been paid)		....	....

Q. 364. *The accounts of Gaiety Ltd, on 30th June 1966, showed a balance to the credit of Profit and Loss Account of Rs 75,800. The Nominal Capital of the Company was Rs. 2,50,000 in shares of Rs 10 each, 10,000 of which were subscribed and paid up to the extent of Rs 7 50 P. per share. At the annual general meeting of the company, it was decided to pay a dividend for the year ended 30th June 1966 of 40% Free of Tax, which was partly to be applied in making the existing shares fully paid up and partly to be satisfied in cash*

Make the Journal Entries necessary to give effect to the above Resolution, assuming that the dividend has been paid.

A. JOURNAL ENTRIES

	L.F	Rs	Rs
Share Final Call Account .. .. .. Dr. To Share Capital Account (Being the Final Call money due on 10,000 shares at Rs 2.50 P per share as per the Board's Resolution dated ———.)		25,000	25,000
Profit and Loss Appropriation Account .. .. Dr. To Share Dividend Account *(Being dividend at 40% Free of Tax declared for the year* ended 30th June 1966 on a capital of 10,000 shares of Rs 10 each, Rs. 7 50 P per share paid up as per the Resolution dated———)		30,000	30,000
Share Dividend Account . .. .. Dr. To Share Final Call Account „ Bank (Being part of dividend applied in payment of the Final Call and partly paid in cash.)		30,000	25,000 5,000

Q. 365. *In what three different ways can a company reduce its Share Capital?*

A. A company, if so authorised by its Articles, may by Special Resolution, and subject to the sanction of the Court, reduce its Share Capital in any one of the following three different ways:—

(1) Extinguish or reduce the liability on any of its shares in respect of share capital not paid up; or

(2) Either with or without extinguishing or reducing the liability on its shares, cancel any paid-up capital which is lost or unrepresented by available assets; or

(3) Either with or without extinguishing or reducing the liability on its shares, pay off any paid-up capital which is in excess of the wants of the company.

Besides the above, the capital of a company can be reduced by Forfeiture or accepting Surrenders, without a Special Resolution or the Court's sanction, but only by a Resolution of the Board, if so authorised by the Articles.

Q. 366. *State the procedure necessary for reducing paid-up capital which has been lost.*

A. The paid-up capital of a company which has been lost or which is unrepresented by available assets can be reduced in the following manner:—

(1) The reduction must be authorised by the Articles, if not, the Articles must be altered by a Special Resolution to take this power.

(2) The Company should pass a Special Resolution reducing the Capital.

(3) A petition should be made to the Court for an order confirming the Resolution.

(4) The Court fixes a day for hearing the petition. In this case of reduction, unless the Court otherwise directs, it is not necessary to prepare a list of creditors, or to send notice to every creditor.

(5) The words "and reduced" should be added after the name of the company. The Court may in this case dispense altogether with the use of these words.

(6) On confirmation by the Court, a copy of the order together with a minute containing the reduction should be produced to the Registrar of Joint-Stock Companies, who will then issue a certificate.

(7) Every copy of the Memorandum issued after the reduction should contain the minute of reduction.

(8) Notices of petition, registration, etc., should be advertised.

Q. 367. *What entries are made in the Financial Books when the Capital of a Company is reduced for wiping off past losses and for reducing the values of certain existing assets?*

A When the Share Capital of a company is reduced for the purpose of wiping off past losses and for reducing the values of certain existing assets, the following Journal Entries are essential The first entry would be to debit Share Capital Account and credit a Capital Reduction Account with the amount by which the capital is desired to be reduced The second entry would be to debit Capital Reduction Account and credit the Profit and Loss Account and also the various Asset Accounts with the amounts to be written off from their book values Immediately after reduction, a fresh Balance Sheet will be prepared which should show the new Capital and also the Original Capital which has been reduced. Similarly, the assets should be shown at the original book values less amounts written off from reduction of capital

Q 368 *The following is the Balance Sheet of Cipher Ltd, as on 30th June 1967 —*

Liabilities	Rs	Assets	Rs.
Authorised Capital —		Goodwill	20 000
50 000 Preference Shares of Rs 10 each	5 00 000	Leasehold Premises	1 07 000
50 000 Equity Shares of Rs 10 each	5 00 000	Plant and Machinery	60 000
		Patents	1 73,900
		Stock	34.000
Rs	10 00 000	Debtors	56 000
		Cash in hand	100
Issued Capital —		*Preliminary Expenses*	2 000
25 000 Preference Shares of Rs 10 each	2 50 000	Profit and Loss Account—Debit Balance	1,23 000
25 000 Equity Shares of Rs 10 each fully paid	2,50 000		
	5 00 000		
Sundry Creditors	40 000		
Bank Overdraft	36 000		
Rs	5 76 000	Rs	5 76 000

The company proved unsuccessful and resolutions were passed to carry out the following scheme of reduction of capital —

(1) That the Preference Shares be reduced to an equal number of fully paid shares of Rs 5 each

(2) That the Equity Shares be reduced to an equal number of fully paid shares of Rs 2 50 P each

(3) That the amount so available be utilised towards wiping off losses and the reduction of assets as follows —

Preliminary Expenses, Goodwill and Profit and Loss Account to be written off entirely,

Rs 27,000 to be written off Leasehold Premises

Rs 14,000 to be written off Stock,

Rs 6 000 to be reserved for Doubtful Debts

20% to be written off Plant and Machinery, and the balance available to be written off Patents

Make the Journal Entries in the books of the Company and prepare a Balance Sheet giving effect to the above

A. JOURNAL ENTRIES

	L.F.	Rs.	Rs.
Preference Share Capital Account .. .. .. Dr.		1,25,000	
Equity Share Capital Account .. .. „		1,87,500	
To Capital Reduction Account			3,12,500
(Being the reduction of 25,000 Preference Shares of Rs. 10 each fully paid to an equal number of Preference Shares of Rs. 5 each fully paid and of 25,000 Equity Shares of Rs. 10 each fully paid to an equal number of Equity Shares of Rs. 2.50 P. each fully paid as per the Special Resolution dated———and confirmed by the Court.———.)			
Capital Reduction Account .. .. .. Dr.		3,12,500	
To Preliminary Expenses			2,000
„ Goodwill			20,000
„ Profit and Loss Account			1,23,000
„ Leasehold Premises			27,000
„ Stock			14,000
„ Reserve for Doubtful Debts			6,000
„ Plant and Machinery			12,000
„ Patents			1,08,500
(Being the amount of losses wiped off and assets written down out of the reduction of Capital as above.)			

THE CIPHER LIMITED (And Reduced)
BALANCE SHEET
As at 30th June 1967

LIABILITIES	Rs.	Rs.	ASSETS	Rs.	Rs.
Authorised Capital :—			Fixed Assets :—		
50,000 Preference Shares of Rs. 10 each, reduced to Rs. 5 each ..	2,50,000		Goodwill ..	20,000	
			Less amount written off	20,000	....
50,000 Equity Shares of Rs. 10 each, reduced to Rs. 2.50 P. each ..	1,25,000	3,75,000	Leasehold Premises ..	1,07,000	
			Less amount written off	27,000	80,000
			Plant & Machinery ..	60,000	
			Less amount written off	12,000	48,000
Subscribed Capital :—			Patents ..	1,73,900	
25,000 Preference Shares of Rs. 10 each fully paid reduced to Rs. 5 each fully paid ..	1,25,000		*Less* amount written off	1,08,500	65,400
			Current Assets :—		
25,000 Equity Shares of Rs. 10 each fully paid reduced to Rs. 2.50 P. each fully paid ..	62,500		Stock ..	34,000	
			Less amount written off	14,000	20,000
		1,87,500	Debtors ..	56,000	
Sundry Creditors ..		40,000	*Less* Reserve for Doubtful Debts ..	6,000	50,000
Bank Overdraft ..		36,000	Cash in Hand ..		100
			Miscellaneous Expenditure and Losses :—		
			Profit & Loss Account ..	1,23,000	
			Less amount written off	1,23,000	....
			Preliminary Expenses ...	2,000	
			Less amount written off ..	2,000	....
Rs.		2,63,500	Rs.		2,63,500

Q. 369. *What particulars should be contained in a Statutory Report to be laid before the Statutory Meeting of a Company?*

A. The following particulars are required to be contained in a Statutory Report —

(a) The total number of shares allotted by the company, distinguishing between shares allotted as fully or partly paid up otherwise than in cash and stating in the case of shares partly paid up the extent to which they are so paid up, and in either case the consideration for which they have been allotted

(b) The total amount of cash received by the company in respect of all the shares allotted, distinguishing as aforesaid

(c) An abstract of the receipts of the company on capital account and of payments made thereout upto a date within seven days of the date of report, exhibiting under distinctive headings the receipts from shares and debentures and other sources, and particulars concerning the balance remaining in hand, and an account or estimate of the preliminary expenses of the company

(d) The names, addresses and descriptions of the directors, auditors (if any), managers (if any), and secretary of the company

(e) The particulars of any contract, the modification of which is to be submitted to the meeting for its approval, together with the particulars of the modification or proposed modification.

(f) The extent, if any, to which each underwriting contract, if any, has not been carried out, and the reasons therefor

(g) The arrears, if any, due on calls from every director, from the managing agent, every partner of the managing agent, every firm in which the managing agent is a partner, and where the managing agent is a private company, every director thereof, from the secretaries and treasurers, where they are a firm, from every partner therein, and where they are a private company, from every director thereof, and from the manager, and

(h) The particulars of any commission or brokerage paid or to be paid in connection with the issue or sale of shares or debentures to any director, to the managing agent, any partner of the managing agent, any firm in which the managing agent is a partner, and where the managing agent is a private company, to any director thereof, to the secretaries and treasurers, where they are a firm, to any partner therein, and where they are a private company, to any director thereof, or to the manager

The Statutory Report shall be certified by not less than two directors of the company, one of whom shall be a Managing Director where there is one

The Report shall also be certified as correct by the auditors (if any) of the company, in so far as it relates to the shares allotted by the company, and to the cash received in respect of such shares, and to the receipts and payments of the company **(Section 165)**

Q. 370. ***What are the requirements under the Companies Act, 1956, in regard to the preparation of Profit and Loss Account?***

A.

PART II [*Sch. VI*]

Requirements as to Profit and Loss Account.

1. The provisions of this Part shall apply to the income and expenditure account referred to in sub-section (2) of section 210 of the Act, in like manner as they apply to a profit and loss account, but subject to the modification of references as specified in that sub section.

2. The profit and loss account—

(*a*) shall be so made out as clearly to disclose the result of the working of the company during the period covered by the account; and

(*b*) shall disclose every material feature, including credits or receipts and debits or expenses in respect of non-recurring transactions or transactions of an exceptional nature.

3. The profit and loss account shall set out the various items relating to the income and expenditure of the company arranged under the most convenient heads; and in particular, shall disclose the following information in respect of the period covered by the account:—

(i) (*a*) The turnover, that is, the aggregate amount for which sales are effected by the company.

(*b*) *Commission paid to sole selling agents within the meaning of section 294 of the Act.*

(*c*) *Commission paid to other selling agents.*

(*d*) *Brokerage and discount on sales, other than the usual trade discount.*

(ii) (*a*) In the case of manufacturing concerns, the purchases of raw material, and the opening and the closing stocks of the goods produced.

(*b*) In the case of trading concerns, the purchases made, and the opening and the closing stocks.

(*c*) In the case of concerns rendering or supplying services, the gross income derived from services rendered or supplied.

(*d*) *In the case of a concern which falls under more than one of the categories mentioned under clauses (a), (b) and (c) above, it shall be sufficient compliance of the requirements herein if the total amounts are shown in respect of the opening and closing stocks, purchases and sales and the gross income from services rendered is shown.*

(*e*) *In the case of other concerns, the gross income derived under the different heads.*

(iii) In the case of all concerns having works in progress, the amounts for which such works have been completed at the commencement and at the end of the accounting period.

(iv) The amount provided for depreciation, renewals or diminution in value of fixed assets.

If such provision is not made by means of a depreciation charge, the method adopted for making such provision.

If no provision is made for depreciation, the fact that no provision has been made shall be stated *and the quantum of arrears of depreciation computed in accordance with section 205(2) of the Act shall be disclosed by way of a note.*

(v) The amount of interest on the company's debentures and other fixed loans, that is to say, loans for fixed periods, stating separately the amount of interest, if any, paid or payable to the managing director, the managing agent, the secretaries and treasurers and the manager, if any.

(vi) The amount of charge for Indian income-tax and other Indian taxation on profits, including, where practicable, with Indian income-tax any taxation imposed elsewhere to the extent of the relief, if any, from Indian income-tax and distinguishing, where practicable, between income-tax and other taxation.

(vii) *The amounts reserved for*—

(*a*) repayment of share capital; and

(*b*) repayment of loans.

(viii) (*a*) The aggregate, if material, of any amounts set aside or proposed to be set aside, to reserves, but not including provisions made to meet any specific liability, contingency or commitment known to exist at the date as at which the balance sheet is made up.

(*b*) The aggregate, if material, of any amounts withdrawn from such reserves.

(ix) (a) The aggregate, if material, of the amounts set aside to provisions made for meeting specific liabilities contingencies or commitments

(b) The aggregate if material, of the amounts withdrawn from such provisions, as no longer required

(x) Expenditure incurred on each of the following items, separately for each item —

(a) *Consumption of stores and spare parts*

(b) Power and fuel

(c) Rent

(d) Repairs to Buildings

(e) Repairs to machinery

(f) (1) *Salaries wages and bonus*

(2) Contribution to provident and other funds

(3) Workmen and staff welfare expenses, to the extent not adjusted from any previous provision or reserve

Note —Information in respect of this item should also be given in the balance sheet under the relevant provision or reserve account

(g) Insurance

(h) *Rates and taxes* excluding *taxes on income*

(i) Miscellaneous expenses

(xi) (a) The amount of income from investments, distinguishing between trade investments and other investments

(b) Other income by way of interest specifying the nature of the income

(c) *The amount of income tax deducted if the gross income is stated under sub* paragraphs (a) and (b) above

(xii) (a) Profits or losses on investments to the extent not adjusted from any previous provision or reserve.

Note —Information in respect of this item should also be given in the *balance sheet under the relevant provision or reserve account*

(b) Profits or losses in respect of transactions of a kind, not usually undertaken by *the company or undertaken in circumstances of an exceptional or non recurring* nature, if material in amount

(c) Miscellaneous income

(xiii) (a) Dividends from subsidiary companies

(b) Provisions for losses of subsidiary companies

(xiv) The aggregate amount of the dividends paid and proposed, and stating whether such amounts are subject to deduction of income tax or not.

(xv) Amount if material, by which any items shown in the profit and loss account are affected by any change in the basis of accounting

4 *The profit and loss account shall also contain or give by way of a note detailed information, showing separately the following payments provided or made during the financial year to the directors (including managing directors) the managing agents, secretaries and treasurers or manager, if any, by the company, the subsidiaries of the company and any other person —*

(i) *managerial remuneration under section 198 of the Act paid or payable* during the financial year to the directors (including managing directors), the managing agent, secretaries and treasurers or manager, if any,

(ii) expenses reimbursed to the managing agent under section 354,

(iii) *commission or other remuneration* payable separately to a managing agent or his associate under sections 356, 357 and 358,

(iv) *commission received or receivable under section 359 of the Act by the managing agent or his associate as selling or buying agent of other concerns in respect of contracts entered into by such concerns with the company*

(v) the money value of the contracts for the sale or purchase of goods and materials or supply of services, entered into by the company with the managing agent or his associate under section 360 during the financial year,

(vi) *other allowances and commission including guarantee commission (details to be given)*

(vii) any other perquisites or benefits *in* cash *or in* kind (*stating approximate money* value where practicable),

(viii) pensions, etc.,—
- (a) pensions,
- (b) gratuities,
- (c) payments from provident funds, in excess of own subscriptions and interest thereon,
- (d) compensation for loss of office,
- (e) consideration in connection with retirement from office.

4A. *The profit and loss account shall contain or give by way of a note a statement showing the computation of net profits in accordance with section 349 of the Act with relevant details of the calculation of the commissions payable by way of percentage of such profits to the directors (including managing directors), the managing agents, secretaries and treasurers or manager (if any).*

4B. The profit and loss account shall further contain or give by way of a note detailed information in regard to amounts paid to the auditor, *whether as fees, expenses or otherwise for services rendered*—
- (a) as auditor; and
- (b) in any other capacity.

5. The Central Government may direct that a company shall not be obliged to show the amount set aside to provisions other than those relating to depreciation, renewal or diminution in value of assets, if the Central Government is satisfied that the information should not be disclosed in the public interest and would prejudice the company, but subject to the condition that in any heading stating an amount arrived at after taking into account the amount set aside as such, the provision shall be so framed or marked as to indicate that fact.

6. (1) Except in the case of the first profit and loss account laid before the company after the commencement of the Act, the corresponding amounts for the immediately preceding financial year for all items shown in the profit and loss account shall also be given in the profit and loss account.

(2) The requirement in sub-clause (1) shall, in the case of companies preparing quarterly or half-yearly accounts, relate to the profit and loss account for the period which ended on the corresponding date of the previous year.

PART III [*Sch. VI*]

Interpretation.

7. *(1) For the purposes of Parts I and II of this Schedule, unless the context otherwise* requires,—
- (a) the expression "provision" shall, subject to sub-clause (2) of this clause, mean any amount written off or retained by way of providing for depreciation, renewals or diminution in value of assets, or retained by way of providing for any known liability of which the amount cannot be determined with substantial accuracy;
- (b) the expression "reserve" shall not, subject as aforesaid, include any amount written off or retained by way of providing for depreciation, renewals or diminution in value of assets or retained by way of providing for any known liability.
- (c) the expression "capital reserve" shall not include any amount regarded as free for distribution through the profit and loss account; and the expression "revenue reserve" shall mean any reserve other than a capital reserve;

and in this sub-clause the expression "liability" shall include all liabilities in respect of expenditure contracted for and all disputed or contingent liabilities.

(2) Where—
- (a) any amount written off or retained by way of providing for depreciation, renewals or diminution in value of assets, not being an amount written off in relation to fixed assets before the commencement of this Act; or
- (b) any amount retained by way of providing for any known liability;

is in excess of the amount which in the opinion of the directors is reasonably necessary for the purpose, the excess shall be treated for the purposes of this Schedule as a reserve and not as a provision.

8. For the purposes aforesaid, the expression "quoted investment" means an investment as respects which there has been granted a quotation or permission to deal on a recognised stock exchange, and the expression "unquoted investment" shall be construed accordingly.

Q. 371. ***Give the Form of Balance Sheet as prescribed by the Companies Act, 1956, and as amended upto 1963.***

SCHEDULE VI

[As amended by Notification No G S R 414 dated 21st March 1961 published in Part II Section 3(i) of Gazette of India Extraordinary dated 22nd March 1961 and as further *amended by Notification* No 28/1/62 PR dated 4th January 1963 issued by the Government of India in the Ministry of Commerce & Industry (Department of Company Law Administration) and as further amended by Notification No G S R 129 dated January 3 1968 published in the Gazette of India, Part II Sec 3(1) page 104 dated 20th January 1968]

(*See Section 211*)

PART I

FORM OF BALANCE SHEET

Balance Sheet of (Here enter the name of the company)

As at (Here enter the date as at which the balance sheet is made out)

Instructions in accordance with which liabilities should be made out	Liabilities: Figures for the previous year	Liabilities	Liabilities: Figures for the current year	Assets: Figures for the previous year	Assets	Assets: Figures for the current year	Instructions in accordance with which assets should be made out
*Terms of redemption or conversion (if any) of any Redeemable Preference *Capital to be stated* together with earliest date of redemption or conversion Particulars of any option on unissued share capital to be specified †Particulars of the different classes of preference shares to be given	Rs (*b*)	*SHARE CAPITAL Authorised shares of Rs each †Issued (distinguishing *between* the *various* classes of capital and stating the particulars specified below, in respect of each class) shares of Rs each †Subscribed (distinguishing between the various classes of capital and stating the particulars specified below, in respect of each class) (*c*) shares of Rs each Rs called up *Of the above shares,* shares are allotted as fully paid up pursuant to a contract without payments being received in cash	Rs (*b*)	Rs (*b*)	*FIXED ASSETS Distinguishing as far as possible between expenditure upon (a) goodwill (b) *land* (c) *buildings* (d) leaseholds (e) railway sidings (f) plant and machinery (g) furniture and fittings, (h) development of property (i) patents trade marks and designs (j) live stock and (k) vehicles etc	Rs (*b*)	**Under each head the original cost* and the additions thereto and deductions therefrom during the year and the total depreciation written off or provided upto the end of the year to be stated *Where the original cost aforesaid and additions and deductions thereto, relate to any fixed asset which has been acquired from a country outside India and in consequence of a change in the rate of exchange at any time after the acquisition of such asset, there has been an increase or reduction in the liability of the company as expressed in Indian currency, for making payment towards the whole or a part of the cost of the asset or for repayment of the whole or a part of moneys borrowed by the company from any person, directly or indirectly, in any foreign currency specifically for the purpose of ac*

*Specify the source from which bonus shares are issued, e.g. capitalisation of profits or Reserves or from Share Premium Account.	*Of the above shares, ... shares are allotted as fully paid up by way of bonus shares.**		quiring the asset (being in either case the liability existing immediately before the date on which the change in the rate of exchange takes effect), the amount by which the liability is so increased or reduced during the year, shall be added to, or, as the case may be, deducted from the cost, and the amount arrived at after such addition or deduction shall be taken to be the cost of the fixed asset.
	Less: Calls unpaid: (i) By managing agent or secretaries and treasurers and where the managing agent or secretaries and treasurers are a firm, by the partners thereof, and where the managing agent or secretaries and treasurers are a private company, by the directors or members of that company. (ii) By directors. (iii) By others.		*Explanation 1.—This paragraph shall apply in relation to all balance-sheets that may be made out as at the 6th day of June 1966, or any day thereafter and where, at the date of issue of the notification of the Government of India, in the Ministry of Industrial Development and Company Affairs (Department of Company Affairs), G.S.R. No. 129 Company Affairs), G.S.R. No. 129 dated the 3rd day of January 1968, any balance-sheet, in relation to*
†*Any capital profit on re-issue of forfeited shares should be transferred to Capital Reserve.*	†Add: Forfeited shares (*amount originally paid up*).		(Contd. at foot of this page)

(Contd. from last column)

which this paragraph applies, has already been made out and laid before the company in annual general meeting, the adjustment referred to in this paragraph may be made in the first balance sheet made out after the issue of the said notification.

Explanation 2.—In this paragraph, unless the context otherwise requires the expressions, "rate of exchange", "foreign currency", and "Indian currency" shall have the meanings respectively assigned to them under sub-section (1) of section 43A of the Income-tax Act, 1961 (43 of 1961), and Explanation 2 and Explanation 3 of the said sub-section shall, as far as may be, apply in relation to the said paragraph as they apply to the said sub-section (1).

In every case where the original cost cannot be ascertained without unreasonable expense or delay, the valuation shown by the books shall be given. For the purposes of this paragraph, such valuation shall be the net amount at which an asset stood in the company's books at the commencement of this Act after deduction of the amounts previously provided or written off for depreciation or diminution in value, and where any such asset is sold, the amount of sales proceeds shall be shown as deduction.

Where sums have been written off on a reduction of capital or a revaluation of assets, every balance-sheet (after the first balance-sheet) subsequent to the reduction or revaluation shall show the reduced figures and with the date of the reduction in place of the original cost. Each balance-sheet for the first five years subsequent to the date of the reduction, shall show also the amount of the reduction made.

Similarly, where sums have been added by writing up the assets, every balance-sheet subsequent to such writing up shall show the increased figures with the date of the increase in place of the original cost. Each balance-sheet for the first five years subsequent to the date of writing up shall also show the amount of increase made.

Explanation.—Nothing contained in the preceding two paragraphs shall apply to any adjustment made in accordance with the second paragraph.

Instructions in accordance with which liabilities should be made out	Liabilities: Figures for the previous year	Liabilities	Liabilities: Figures for the current year	Assets: Figures for the previous year	Assets	Assets: Figures for the current year	Instructions in accordance with which assets should be made out
	Rs (*b*)		Rs (*b*)	Rs (*b*)		Rs (*b*)	
*Additions and de ductions since last balance sheet to be shown under each of the specified heads *The word fund in relation to any 'Reserve' should be used only where such Reserve is spe cifically represented by earmarked invest ments*		*RESERVES AND SURPLUS (1) Capital Reserves not available for dividend (2) Capital Redemption Reserve (3) Share Premium Ac count (*cc*) (4) Other Reserves speci fying the nature of each reserve and the amount in respect thereof *Less* Debit balance in profit and loss account (if any) (*h*) (5) Surplus i e balance in profit and loss account after provid ing for proposed allocations namely — Dividend Bonus or Reserves (6) Proposed additions to Reserves (7) Sinking Funds			INVESTMENTS Showing nature of invest ments and mode of valua tion for example cost or market value and distin guishing between— *(1) Investments in Gov ernment or Trust Securities *(2) Investments in shares debentures or bonds (showing separately shares fully paid up and partly paid up and also distinguish ing the different classes of shares and showing also in similar details invest ments in shares debentures or bonds of subsidiary com panies) (3) Immovable proper ties		*Aggregate amount of company s quoted investments and also the market value thereof shall be shown *Aggregate* amount of company s un quoted investments shall also be shown

**Loans from Directors, the Managing Agents, Secretaries and Treasurers, Manager should be shown separately.* *Interest accrued and due on Secured Loans should be included under the appropriate sub-heads under the head SECURED LOANS.* •The nature of the security to be specified in each case. Where loans have been guaranteed by managing agents, secretaries and treasurers, managers and/or directors, a mention thereof shall also be made and also the aggregate amount of such loans under each head. †Terms of redemption or conversion (if any) of debentures issued to be stated together with earliest date of redemption or conversion.	SECURED LOANS: •(1) Debentures.† •(2) Loans and Advances from Banks. •(3) Loans and Advances from subsidiaries. •(4) Other Loans and Advances.	CURRENT ASSETS, LOANS AND ADVANCES: (A) *Current Assets*— (1) Interest accrued on Investments. ††(2) Stores and Spare Parts. (3) Loose Tools. ††(4) Stock-in-trade. ††(5) Works in Progress. †(6) Sundry Debtors. (a) Debts outstanding for a period exceeding six months. (b) Other debts. *Less*: Provision. †(7A) *Cash balance on hand.* †(7B) *Bank balances*— (*a*) *with Scheduled Banks; and* (*b*) *with others.*	††Mode of valuation of stock shall be stated and the amount in respect of raw materials, shall also be stated separately where practicable. **Mode of valuation of works in progress shall be stated. †In regard to Sundry Debtors particulars to be given separately of—(a) debts considered good and in respect of which the company is fully secured; and (b) debts considered good for which the company holds no security other than the debtor's personal security; and (c) debts considered doubtful or bad. Debts due by directors or other officers of the company or any of them either severally or jointly with any other person or debts due by firms or private companies respectively in which any director is a partner or a director or a member to be separately stated. *Debts due from other companies under the same management within the meaning of sub-section (1B) of section 370, to be disclosed with the names of the Companies;* The maximum amount due by directors or other officers of the company at any time during the year to be shown by way of a note.

Instructions in accordance with which liabilities should be made out	Liabilities: Figures for the previous year	Liabilities	Liabilities: Figures for the current year	Assets: Figures for the previous year	Assets	Assets: Figures for the current year	Instructions in accordance with which assets should be made out
	Rs (*b*)		Rs (*b*)	Rs (*b*)		Rs (*b*)	The *Provision* to be shown under this head should not exceed the amount of debts stated to be considered doubtful or bad and any surplus of such *Provision* if already created, should be shown at every closing under Reserves and Surplus (in the Liabilities side) under a separate sub head Reserve for Doubtful or Bad Debts
							†*In regard to bank balances, particulars to be given separately of—*
							(*a*) *the balances lying with Scheduled Banks on current accounts call accounts and deposit accounts,*
†*Loans from Directors the Managing Agents Secretaries and Treasurers, Manager should be shown separately* *Interest accrued and due on unsecured Loans should be included under the appropriate sub heads under the head*		UNSECURED LOANS (1) Fixed Deposits †(2) Loans and Advances from subsidiaries †*(3) Short Term Loans and Advances (a) From Banks (b) From others †(4) Other Loans and Advances (a) From Banks (b) From others					(*b*) *the names of the bankers other than Scheduled Banks and the balances lying with each such banker on current accounts, call accounts and deposit accounts and the maximum amount outstanding at any time during the year from each such banker, and* (*c*) *the nature of the interest, if any of any director or his relative or the managing agent/secretaries*

" *UNSECURED LOANS*". †Where loans have been guaranteed by managing agents, secretaries and treasurers, managers and/or directors, a mention thereof shall also be made and also the aggregate amount of such loans under each head. *See note (*d*) at foot of Form.			*and treasurers or any associate of the latter in each of the bankers (other than Scheduled Banks) referred to in (b) above.*
	CURRENT LIABILITIES AND PROVISIONS: A. *Current Liabilities.* (1) *Acceptances.* (2) *Sundry Creditors.* (3) *Subsidiary Companies.* (4) *Advance payments and unexpired discounts for the portion for which value has still to be given, e.g. in the case of the following classes of companies:* *Newspaper, Fire Insurance, Theatres, Clubs, Banking, Steamship Companies, etc.* (5) *Unclaimed Dividends.* (6) *Other Liabilities (if any).*	†(B) *Loans and Advances* (8) Advances and Loans to Subsidiaries. (9) Bills of Exchange. (10) Advances recoverable in cash or in kind or for value to be received, e.g., Rates, Taxes, Insurances, etc. (11) Balances on current account with Managing Agents or Secretaries and Treasurers. (12) Balances with Customs, Port Trust, etc. (where payable on demand).	†The above instructions regarding "Sundry Debtors" apply to "Loans and Advances" also.

Instructions in accordance with which liabilities should be made out	Liabilities: Figures for the previous year	Liabilities	Liabilities: Figures for the current year	Assets: Figures for the previous year	Assets	Assets: Figures for the current year	Instructions in accordance with which assets should be made out
	Rs (*b*)		Rs (*b*)	Rs (*b*)		Rs (*b*)	
		(7) *Interest accrued but not due on loans*					
		B *Provisions*					
		(8) *Provisions for Taxation*					
		(9) *Proposed Dividends*					
		(10) *For Contingencies*					
		(11) *For Provident Fund Scheme*					
		(12) *For insurance pension and similar staff benefits schemes*					
		(13) *Other provisions*					
		[A footnote to the balance sheet *may* be added to show separately —					
		(1) Claims against the company not acknowledged as debts					
		(2) Uncalled liability on *shares partly paid*					
††The period for which the dividends are in arrear or if there is more than one class of shares, *the dividends* on each such class are in arrear, shall be stated		††(3) Arrears of fixed cumulative dividends					
The amount shall be stated before deduction of income tax, except that in the case of tax free dividends the amount shall be shown free of income tax and the fact that it is so shown shall be stated		(4) Estimated amount of contracts remaining to be executed on capital account and not provided for					

†The amount of any guarantees given by the company on behalf of directors or other officers of the company shall be stated and where practicable, the general nature and amount of each such contingent liability, if material, shall also be specified.	†(5) Other money for which the company is contingently liable.]	MISCELLANEOUS EXPENDITURE (to the extent not written off *or adjusted*): (1) Preliminary expenses (2) Expenses including commission or brokerage on underwriting or subscription of shares or debentures. (3) Discount allowed on the issue of shares or debentures. (4) Interest paid out of capital during construction (also stating the rate of interest). (5) Development expenditure not adjusted. (6) Other items (specifying nature). †*Profit and Loss Account.*	 †*Show here the debit balance of profit and loss account carried forward after deduction of the uncommitted reserves, if any.*

NOTES

General instructions for preparation of balance sheet —(a) The information required to be given under any of the items or sub items in this Form, if it cannot be conveniently included in the balance sheet itself, shall be furnished in a separate Schedule or Schedules to be annexed to and to form part of the balance sheet This is recommended when items are numerous

(b) Paise can also be given in addition to Rupees, if desired

(c) In the case of *subsidiary companies* the number of shares held by the holding company as well as by the ultimate holding company and its subsidiaries must be separately stated

The auditor is not required to certify the correctness of such shareholdings as certified by the management

(cc) The item Share Premium Account " shall include details of its utilisation in the manner provided in section 78 in the year of utilisation

(d) Short Term Loans will include those which are due for not more than one year as at the date of the balance sheet

(e) Depreciation written off or provided shall be allocated under the different asset heads and deducted in arriving at the value of Fixed Assets

(f) Dividends declared by subsidiary companies after the date of the balance sheet *should not be included* unless they are in respect of a period which closed on or before the date of the balance sheet

(g) Any reference to benefits expected from contracts to the extent not executed shall not be made in the balance sheet but shall be made in the Board s report

(h) The debit balance in the Profit and Loss Account shall be shown as a deduction from the uncommitted reserves, if any

(i) As regards Loans and Advances, amounts due by the Managing Agents or Secretaries and Treasurers, either severally or jointly with any other persons, to be separately stated, *the amounts due from other companies under the same management within the meaning of sub section (1B) of section 370 should also be given with the names of the companies,* the maximum amount due from every one of these at any time during the year must be shown

(j) Particulars of any redeemed debentures which the company has power to issue should be given

(k) Where any of the company s debentures are held by a nominee or a trustee for the company, the nominal amount of the debentures and the amount at which they are stated in the books of the company shall be stated

(l) A statement of investments (whether shown under " Investments " or under " Current Assets ' as stock in trade) separately classifying trade investments and other investments should be annexed to the balance sheet showing the names of the bodies corporate, indicating separately *the names of the bodies corporate in the same group (with the name of the managing agent or secretaries and treasurers, if any, of every body corporate)* in whose shares or debentures investments have been made (including all investments whether existing or not, made subsequent

to the date as at which the previous balance-sheet was made out) and the nature and extent of the investments so made in each such body corporate, provided that in the case of an investment company, that is to say, a company whose principal business is the acquisition of shares, stock, debentures or other securities, it shall be sufficient if the statement shows only the investments existing on the date as at which the balance sheet has been made out provided further that it shall not be necessary to give any particulars in respect of investments made by a managing agency or secretaries and treasurers company in the managed companies' shares or debentures.

A "Trade Investment" means an investment by a company in the shares or debentures of another company, not being its subsidiary, for the purpose of promoting the trade or business of the first company

(m) If, in the opinion of the Board, any *of the current assets loans and advances* have not a value on realisation in the ordinary course of business at least equal to the amount at which they are stated, the fact that the Board is of that opinion shall be stated

(n) Except in the case of the first balance sheet laid before the company after the commencement of the Act, the corresponding amounts for the immediately preceding financial year for all items shown in the balance sheet shall also be given in the balance sheet. The requirement in this behalf shall in the case of companies preparing quarterly or half yearly accounts, etc., relate to the balance sheet for the corresponding date in the previous year.

(o) The amounts to be shown under Sundry Debtors shall include the amounts due in respect of goods sold or services rendered or in respect of other contractual obligations but shall not include the amounts which are in the nature of loans or advances

(p) Current accounts with Directors, Managing Agents Secretaries and Treasurers and Manager, whether they are in credit or debit, shall be shown separately.

Q. 372. *From the following Trial Balance of the National Cotton Mills Ltd., prepare a Trading and Profit and Loss Account for the year ended 31st December 1966, and a Balance Sheet as on that date:—*

[For Trial Balance, see next page]

The Nominal Capital of the company consists of 3,200 7½% Preference Shares of Rs. 1,000 each, and 5,000 Equity Shares of Rs. 1,000 each.

Depreciate the Land and Buildings by Rs. 80,000 and Plant and Machinery by Rs. 4,00,000. Transfer Rs. 3,00,000 to Reserve Fund and Rs. 2,00,000 to Dividend Equalisation Fund. The Managing Agents are entitled to a commission of 1½% on sales. Provide for interest on Bank Loan for 6 months at 7%. The stocks held on 31st December 1966 were, Cotton at average cost Rs. 15,40,000, Coal at cost Rs. 30,000, Yarn at or below selling price Rs. 19,00,000, Cloth at or below selling price Rs. 22,00,000 and Stores at cost Rs. 1,90,000.

TRIAL BALANCE

As at 31st December 1966

	Rs	Rs
Preference Share Capital		32 00 000
Equity Share Capital		50 00 000
5½% Mortgage Debentures		20 00 000
Calls unpaid (Equity Shares)	2 000	
Land and Buildings (Cost Rs 20 00 000)	16 00 000	
Machinery and Plant (Cost Rs 96 00 000)	81 00 000	
Reserve Fund		6 00 000
Dividend Equalisation Fund		3 00 000
Bankers Loan (secured by stock of cotton yarn & cloth)		10 00 000
Creditors for Cotton		4 50 000
Creditors for Coal and Stores		40 000
Unclaimed Dividends		2 400
Cotton Account	1 41 00 000	
Coal Account	6,30 000	
Sale of Yarn		61 20 000
Sale of Cloth		74 00 000
Fixed Deposits		2 40 000
Shares in Suburban Dyeing Co Ltd (2 000 of Rs 100 each Rs 80 paid up)	1 60 000	
Cash in Office	1 800	
Cash at Mills	2 400	
Cash at Bank	28 990	
Stores Account	7 20 000	
Wages	8 00 000	
Dividends Received		58 040
Transfer Fees		1 500
Sundry Debtors (including Rs 2 600 due by Directors of the Mill)	1 32,200	
Profit and Loss Account (1st January 1966)		9 09,250
Salaries	1 35 000	
Rent Rates etc	68 000	
Income tax	32 000	
General Expenses	94 000	
Debenture Interest	55 000	
Due for Salaries Wages etc		64 000
Preference Shares Dividend (for 1965)	2 24 000	
Ordinary Shares Dividend (for 1965)	4,99 800	
Rs	2 73 85 190	2,73 85 190

A

THE NATIONAL COTTON MILLS LTD

TRADING AND PROFIT & LOSS ACCOUNT

For the year ended 31st December 1966

	Rs		Rs	Rs
To Cotton Account	1 41 00 000	By Sale of Yarn		61 20 000
„ Coal Account	6 30 000	Sale of Cloth		74 00 000
Stores Account	7 20 000	„ Stock 31st December 1966 —		
Wages Account	8 00 000	Cotton	15 40 000	
„ Gross Profit c/d.	31,30 000	Coal	30 000	
		Stores	1 90 000	
		Yarn	19 00 000	
		Cloth	22 00 000	
				58 60 000
Rs	1 93 80 000	Rs		1 93 80 000

TRADING AND PROFIT & LOSS ACCOUNT—*contd.*

	Rs.	Rs.		Rs.
To Salaries ..		1,35,000	By Gross Profit b/d. .	31,30,000
„ Rent, Rates, etc. ..		68,000	„ Dividends Received ..	58,040
„ General Expenses ..		94,000	„ Transfer Fees ..	1,500
„ Debenture Interest ..		1,10,000		
„ Bank Loan Interest ..		35,000		
„ Depreciation on :—	Rs.			
Land and Buildings	80,000			
Plant and Machinery	4,00,000			
		4,80,000		
„ Managing Agents' Commission ..		2,02,800		
„ Net Profit transferred to Appropriation Account ..		20,64,740		
Rs.		31,89,540	Rs.	31,89,540

PROFIT & LOSS APPROPRIATION ACCOUNT

	Rs.		Rs.	Rs.	Rs.
To Income-tax ..	32,000	By Balance—1-1-66 .		9,09,250	
„ Reserve Fund ..	3,00,000	*Less* Preference			
„ Dividend Equalisation Fund ..	2,00,000	Dividend	2,24,000		
„ Balance carried to Balance Sheet	17,18,190	Ord. Dividend	4,99,800		
				7,23,800	
					1,85,450
		„ Net Profit this year .			20,64,740
Rs.	22,50,190	Rs.			22,50,190

THE NATIONAL COTTON MILLS LTD.
BALANCE SHEET
As at 31st December 1966

Liabilities	Rs.	Rs.	Rs.	*Assets*	Rs.	Rs.	Rs.
Authorised Capital :—				*Fixed Assets* :—			
3,200 7½% Preference Shares of Rs. 1,000 each ..		32,00,000		Land and Buildings at Cost .		20,00,000	
5,000 Equity Shares of Rs. 1,000 each ..		50,00,000		*Less* Depreciation written off in previous years ..	Rs. 4,00,000		
Rs.		82,00,000		*Less* Depreciation written off this year ..	80,000		
						4,80,000	
Issued, Subscribed and Paid-up Capital :—							15,20,000
3,200 7½% Preference Shares of Rs. 1,000 each fully paid ..		32,00,000		Plant & Machinery at cost ..		96,00,000	
5,000 Equity Shares of Rs. 1,000 each	50,00,000			*Less* Depreciation written off in previous years	15,00,000		
Less Calls in arrears ..	2,000			*Less* Depreciation written off this year ..	4,00,000		
		49,98,000				19,00,000	
			81,98,000				77,00,000
Carried forward Rs.			81,98,000	*Carried forward* Rs.			92,20,000

BALANCE SHEET—*contd*

		Rs			Rs
Brought forward Rs		81 98 000	*Brought forward* Rs		92 20 000
Reserves and Surplus —			*Investments* —Trade		
Reserve Fund		9 00 000	2 000 Shares in Suburban Dyeing		
Dividend Equalisation Fund		5 00 000	Co Ltd Rs 100 each Rs 80		
Profit & Loss Account—Balance		17 18 190	paid (Unquoted)		1 60 000
Secured Loans —			*Current Assets Loans & Advances*		
5½% Mortgage Debentures		20 00 000	(A) *Current Assets* —		
Interest due thereon		55 000	Stock in Trade —	Rs	
Loan from Bankers			Cotton at average cost	15 40 000	
(Secured by stocks of Cotton Yarn and Cloth)		10 00 000	Yarn at or below selling price	19 00 000	
Interest due thereon		35 000	*Cloth price*	22 00 000	
Unsecured Loans —			Coal at cost	30 000	
Fixed Deposits		2 40 000	Stores at cost	1 90 000	58 60 000
Current Liabilities —	Rs		*Book Debts* —		
Goods supplied	4 90 000		On Open Accounts	1 29 600	
Expenses	64 000		Due by Directors	2 600	1 32 200
Other Finance	2 02 800		*Cash and other Balances* —	Rs	
Unclaimed Dividends	2 400	7 59 200	In Office	1 800	
			At Mills	2 400	
			At Bank	28 990	33 190
Rs		1 54 05 390	Rs		1,54 05 390

Contingent Liability —In respect of Calls not yet made on 2 000 shares in the Suburban Dyeing Co Ltd at Rs 20 per share Rs 40 000

Q 373 *From the following Trial Balance of the Excelsior Rubber Plantations, Ltd, prepare Profit and Loss Account and Appropriation Account for the year ended 31st December 1966 and a Balance Sheet as on that date* —

		Rs	Rs
Share Capital Authorised and Issued			10 00 000
Leasehold Estate in Ceylon		7 38 450	
Development Account 1st January 1966		2,96 720	
Expenditure in Ceylon during 1966 —	Rs		
Upkeep of producing area tapping manufacturing shipping etc	1 83 030		
Further outlays on areas not in bearing	51 060		
		2,34 090	
Buildings and Machinery		1 37 200	
Inventory of Cattle Stores etc.		10 530	
Stock of Rubber in Store and in Transit at 31st December 1965		1 42,410	
Proceeds of Rubber sold			4,23,970
Profit on Exchange			140
Directors Fees		8 500	
Audit Fees		2 540	
Income-tax		24,300	
Interest on Deposit			640
Transfer Fees			100
Cash at Bankers and in hand		74 880	
Sundry Debtors		11 020	
Sundry Creditors			45 810
General Reserve			1,50 000
Profit and Loss Account Balance after payment of Rs 1 25 000 Final Dividend for 1965			84 980
Interim Dividend paid 31st July 1966		25 000	
Rs.		17 05 640	17 05 640

Provide 10 per cent Depreciation on Building and Machinery; carry Rs. 50,000 to General Reserve and provide for additional remuneration of the Directors, viz., $2\frac{1}{2}$ per cent on the profit for the year before charging Income-tax and the General Reserve. The Stock of Rubber in Store and in Transit on 31st December 1966 was valued at Rs. 1,56,860.

A. *THE EXCELSIOR RUBBER PLANTATIONS LTD.*

PROFIT AND LOSS ACCOUNT

For the year ended 31st December 1966

	Rs. P.		Rs. P.
To Stock of Rubber in Store and in Transit	1,42,410.00	By Sales	4,23,970.00
" Expenditure in Ceylon during 1966 :— Upkeep of Producing Area, Tapping, Manufacturing, Shipping, etc.	1,83,030.00	" Stock of Rubber in Store and in Transit ..	1,56,860.00
" Gross Profit c/d.	2,55,390.00		
Rs.	5,80,830.00	Rs.	5,80,830.00
To Directors' Fees	8,500.00	By Gross Profit b/d. ..	2,55,390.00
" Audit Fees	2,540.00	" Profit on Exchange ..	140.00
" Depreciation—Building and Machinery at 10% ..	13,720.00	" Interest on Deposit ..	640.00
" Additional Remuneration to Directors	5,787.75	" Transfer Fees	100.00
" Net Profit transferred to Appropriation Account ..	2,25,722.25		
Rs.	2,56,270.00	Rs.	2,56,270.00

[*For Profit and Loss Appropriation Account, see next page*]

BALANCE SHEET

As at 31st December 1966

LIABILITIES		Rs. P.	ASSETS		Rs. P.
Authorised Capital		10,00,000.00	Fixed Assets :—		
Issued and Subscribed Capital ..		10,00,000.00	Leasehold Estate in Ceylon at cost		7,38,450.00
Paid up Capital		10,00,000.00	Development Account at cost :—		
Reserve & Surplus :—	Rs. P.		Balance as at 1st Jan. 1966 ..	Rs. 2,96,720	
General Reserve	2,00,000.00		*Add* additions during the year ..	51,060	3,47,780.00
Surplus—Balance of Profit & Loss Account	2,11,402.25	4,11,402.25	Buildings & Machinery ..	1,37,200	
Current Liabilities :—			*Less* Depreciation ..	13,720	1,23,480.00
For Goods Supplied	45,810.00		(A) Current Assets :—		
For Additional Remuneration to Directors	5,787.75	51,597.75	Stock of Cattle, Stores, etc. as per Inventory ..		10,530.00
			Stock of Rubber in Store and in Transit		1,56,860.00
			Sundry Debtors		11,020.00
			Cash in hand and at Bankers ..		74,880.00
Rs.		14,63,000.00	Rs.		14,63,000.00

PROFIT AND LOSS APPROPRIATION ACCOUNT

	Rs P.		Rs P
To Dividend for 1965	1,25,000 00	By Profit of last year	2,09,980 00
„ Interim Dividend	25 000 00	„ Net Profit during the year	2,25,722 25
„ Income tax	24,300 00		
„ General Reserve	50,000 00		
„ Balance available for distribution	2,11,402.25		
Rs.	4,35,702 25	Rs	4,35,702.25

Q. 374. *The following was the Trial Balance of the Indian Products Ltd. on 31st December 1966 —*

	Rs		Rs
Stock	1 30 000	Unclaimed Dividends	1,700
Machinery	9,92 700	Sinking Fund for Redemption of Debentures	2,50 000
Freehold Land	1,50,400	Reserve Fund	47,600
Preliminary Expenses	8,320	Returns from Purchases	3,500
Sundry Debtors	2 50 000	Bills Payable	9,300
Wages	75 000	Subscribed and fully called Capital	12,50,000
Salaries	20,913	Interest on Sinking Fund Investments	8,000
Purchases	6 47,000	Sundry Creditors	2 00,025
Bad Debts	3 400	Miscellaneous Receipts	400
Directors' and Auditor's fees	2,900	4% Debentures	3,00 000
Interest on Debentures	6 000	Reserve for Bad Debts	10,000
Insurance	3,000	Interest on War Bonds	3,000
Cash at Bank	17,300	Sales	9,83,500
Cash in hand	450	Profit and Loss Account Balance	9,600
6% War Bonds	1,00,000	Depreciation Fund	2,02,400
Motive Power	19 000		
Buildings	4 50 600		
General Expenses	1,417		
Repairs	3 900		
Postage, Stationery, etc	2,100		
Rent Rates and Taxes	6,200		
Carriage	2,000		
Travelling Expenses	1,050		
Discount on Debentures	5,000		
Sinking Funds Investments	2,50,000		
Goodwill	50,000		
Loose Tools	4,225		
Returns from Customers	4,700		
Bank Charges	150		
Discount on Sales	1,300		
Depreciation on Machinery	55 000		
Depreciation on Buildings	15,000		
Rs	32,79,025	Rs	32,79,025

You are required to prepare Trading and Profit and Loss Account and Balance Sheet as required by the Companies Act after making the following adjustments —

Reserve for Bad Debts is to be maintained at 5% on Sundry Debtors. Directors' Fees amounting to Rs. 300 are to be provided. Insurance is paid for the year ending 31st March 1967. Write off the whole of Preliminary Expenses. Add Rs. 10,000 to Sinking Fund for Redemption of Debentures. The Closing Stock includes goods worth Rs. 3,000 received on the last day and which have not been passed through the Purchase Book. The Authorised Capital of the Company is Rs. 15,00,000 divided into 15,000 Shares of Rs. 100 each. The Stock on 31st December 1966 was Rs. 1,37,000. Market value of Investments on 31st December 1966 was Rs. 3,42,000.

A.

THE INDIAN PRODUCTS LTD.

TRADING AND PROFIT & LOSS ACCOUNT

For the year ended 31st December 1966

	Rs.	Rs.		Rs.	Rs.
To Stock ..		1,30,000	By Sales ..	9,83,500	
„ Purchases ..	6,50,000		*Less* returns ..	4,700	
Less returns ..	3,500				9,78,800
		6,46,500	„ Stock at end ..		1,37,000
„ Wages ..		75,000			
„ Cartage ..		2,000			
„ Motive Power ..		19,000			
„ Gross Profit c/d. ..		2,43,300			
	Rs.	11,15,800		Rs.	11,15,800
To Salaries ..		20,913	By Gross Profit b/d. ..		2,43,300
„ Rent, Rates, Taxes ..		6,200	„ Miscellaneous Receipts ..		400
„ Directors' and Auditors' Fees ..		3,200	„ Interest on War Bonds ..		6,000
„ Repairs ..		3,900			
„ Insurance ..		2,250			
„ Postage, Stationery, etc. ..		2,100			
„ General Expenses ..		1,417			
„ Travelling Expenses ..		1,050			
„ Bank Charges ..		150			
„ Discount on Sales ..		1,300			
„ Bad Debts ..		3,400			
„ Interest on Debentures ..		12,000			
„ Reserve for Bad Debts ..		2,500			
„ Discount on Debentures (1/5th written off.) ..		1,000			
„ Preliminary Expenses ..		8,320			
„ Depreciation on :—	Rs.				
Machinery ..	55,000				
Buildings ..	15,000				
		70,000			
„ Net profit transferred to Appropriation Account ..		1,10,000			
	Rs.	2,49,700		Rs.	2,49,700

THE INDIAN PRODUCTS LTD
BALANCE SHEET
As at 31st December 1966

Liabilities			Rs	*Assets*		Rs
Share Capital —				Fixed Assets —	Rs.	
Authorised Capital—				Goodwill	50,000	
15,000 Shares of Rs 100 each			15,00 000	*Freehold Land*	1,50,400	
				Buildings	4,50,600	
Subscribed & Called up Capital —				Machinery	9,92,700	
12 500 Shares of Rs 100 each			12,50 000			16,43,700
Reserves and Surplus —		Rs		Investments —Quoted 6%		
Reserve Fund		47,600		War Bonds	1,00 000	
Sinking Fund		2,68,000		Sinking Fund Investments	2,50,000	
Depreciation Fund		2,02,400				3,50,000
Surplus Balance of				(Market Value Rs 3,42,000)		
Profit and Loss A/c	9,600			Interest on Investments		3,000
Add Profit for the year	1,10,000			Current Assets —		
				Loose Tools	4,225	
	1,19,600			Stock in Trade at cost	1,37,000	
Less Transferred to						1,41,225
Sinking Fund	10,000			Sundry Debtors	2,50,000	
		1,09,600		*Less* Reserve for Doubtful Debts	12,500	
			6,27,600			2,37,500
Secured Loans —				Cash and Bank Balances —		
4% Debentures			3,00,000	In Hand	450	
Unsecured Loans			Nil	At Bank on Current Account	17,300	
Current Liabilities & Provisions —						17,750
(A) *Current Liabilities* —				Loans and Advances —		
Acceptances		9,300		Unexpired Insurance		750
Sundry Creditors		2,03,025		Miscellaneous Expenditure —		
For Expenses		300		Discount on Debentures		4,000
Interest on Secured Loans		6,000				
Unclaimed Dividends		1,700				
			2,20,325			
		Rs	23,97,925		Rs	23,97,925

Note:—The Depreciation provided against each asset should be shown as a deduction from the book value of that asset. In the absence of any information on this head, the credit balance on Depreciation Fund is shown on the liabilities side

Q. 375. *Criticise the form of the following Balance Sheet of a Limited Company*

BALANCE SHEET
For the year to 30th June 1967

			Rs		Rs
To Share Capital Issued —				By Lands, Buildings, Plant, Goodwill and Trade Marks	12,00,000
100,000 shares of Rs 10 each			10 00 000	„ Debtor Balances	3,00,000
„ Debenture Stock			5,00 000	„ Stock	1,40,000
„ Credit Balances & Reserve Funds			2,50,000	„ Cash at Bank and Sundry Investments	1,75,000
„ Profit and Loss Account at June 30th		Rs 25,000			
„ Profit for year		90,000			
		1,15,000			
Less Dividend paid		50,000			
			65,000		
		Rs.	18,15,000	Rs	18,15,000

A. The Balance Sheet is not properly drawn up for the following reasons:—

(1) **Heading.**—A Balance Sheet is prepared to show the position of affairs of a concern on a certain date and it does not relate to any particular period. The words "for the year to" in the heading are therefore incorrect and the proper heading would be "Balance Sheet as at 30th June 1967." The name of the company is also essential.

(2) **"To" and "By".**—The words "To" and "By" should not be used on the two sides of the Balance Sheet, since a Balance Sheet is not an account but only a summarised statement of assets and liabilities arranged in a particular order.

(3) The words "Assets" should be stated on the top of the right-hand side, and the words "Liabilities" on the top of the left-hand side, to enable any lay person to understand the statement more clearly.

(4) **Authorised Capital** should be shown as the first item on the left followed by Issued, Subscribed and Paid-up Capital, since all these items are required to be stated separately.

(5) **Debenture Stock.**—If this is secured by the hypothecation of any assets, that fact must be stated by way of a note underneath the item.

(6) **Credit Balances and Reserve Funds.**—The nature and composition of this item is ambiguous. Specific Reserves and General Reserve Fund should be separated from other credit balances representing actual liabilities. Depreciation Funds and Funds created to meet contingent liabilities should also be stated separately. The other liabilities of the Company should be classified as under and stated separately:—

Liabilities—

for Goods supplied.

,, Expenses.

,, Acceptances.

,, Other finance.

(7) Credit balances in respect of Unclaimed Dividends, Interest accrued on Debentures and Loans Unsecured should also be shown separately from each other. Reserve for Doubtful Debts should not be deducted from the amount of Sundry Debtors on the assets side, but should be shown separately on the liabilities side.

(8) **Dividend** paid seems to be interim for the current year and must be stated as such.

(9) **Fixed Assets**—These have all been mixed up together The Form requires all the assets to be shown separately from each other as far as possible Moreover, the original cost of each fixed asset and the depreciation written off to date must be shown distinctly

(10) **Debtor Balances**—This item is also ambiguous as the nature and composition of the same are not stated clearly Debit balances in respect of *Preliminary Expenses, Commission on Shares, Discount on Debentures,* Prepaid Expenses, etc should all be shown separately from each other The amount of Book Debts should also be stated distinctly from Debtors for Loans, if any

(11) **Stock**—*The basis of valuation of stock is not shown. It must be* stated whether it is valued at cost or market price

(12) **Cash at Bank and Sundry Investments**—The nature of investments and the mode of valuation, e g cost or market value, should be stated clearly *The cash balance should be shown separately from the Investments*

Q 376 *What Books of Accounts must be kept by a company under the Companies Act, 1956? State the consequences of default in this respect*

A Section 209 states that —

Books of account to be kept by company—(1) Every company shall keep at its registered office proper books of account with respect to—

(a) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure take place,

(b) all sales and purchases of goods by the company,

(c) the assets and liabilities of the company,

Provided that all or any of the books of account aforesaid may be kept at such other place in India as the Board of directors may decide and when the Board of directors so decides, the company shall, within seven days of the decision, file with the Registrar a notice in writing giving the full address of that other place and

(d) in the case of a company pertaining to any class of companies engaged in production, processing, manufacturing or mining activities, such particulars relating to utilisation of material or labour or to other items of cost as may be prescribed, if such class of companies is required by the books of account by the Central Government to include such particulars in the books of account

(2) Where a company has a branch office, whether in or outside India, the company shall be deemed to have complied with the provisions of sub-section (1), if proper books of account relating to the transactions effected at

the branch office are kept at that office and proper summarised returns, made up to dates at intervals of not more than three months, are sent by the branch office to the company at its registered office or the other place referred to in sub-section (1).

(3) For the purposes of sub-sections (1) and (2), proper books of account shall not be deemed to be kept with respect to the matters specified therein, if there are not kept such books as are necessary to give a true and fair view of the state of the affairs of the company or branch office, as the case may be, and to explain its transactions.

(4) (a) The books of account and other books and papers shall be open to inspection by any director during business hours.

(b) The books of account and other books and papers shall be open to inspection during business hours—

(i) by the Registrar,

(ii) by any officer of Government authorised by the Central Government in this behalf:

Provided that such inspection may be made without giving any previous notice to the company or any officer thereof.

(c) The Registrar or such officer may during the course of inspection—

(i) make or cause to be made copies of the books of account and other books and papers;

(ii) place or cause to be placed any marks of identification thereon in token of the inspection having been made.

(d) In order to enable the Registrar or such officer to make an inspection of the books of account and other books and papers of the company, it shall be the duty of the company—

(i) to produce to the Registrar or such officer such books of account and other books and papers of the company as the Registrar or such officer may require,

(ii) otherwise to give to the Registrar or such officer all assistance in connection with the inspection which the company is reasonably able to give.

(4A) The books of account of every company relating to a period of not less than eight years immediately preceding the current year together with the vouchers relevant to any entry in such books of account shall be preserved in good order:

Provided that in the case of a company incorporated less than eight years before the current year, the books of account for the entire period

preceding the current year together with the vouchers relevant to any entry in such books of account shall be so preserved

(5) If any of the persons referred to in sub-section (6) fails to take all reasonable steps to secure compliance by the company with the requirements of this section, or has by his own wilful act been the cause of any default by the company thereunder, he shall, in respect of each offence, be punishable with imprisonment for a term which may extend to six months, or with fine which may extend to one thousand rupees, or with both

Provided that in any proceedings against a person in respect of an offence under this section consisting of a failure to take reasonable steps to secure compliance by the company with the requirements of this section, it shall be a defence to prove that a competent and reliable person was charged with the duty of seeing that those requirements were complied with and was in a position to discharge that duty

Provided further that no person shall be sentenced to imprisonment for any such offence unless it was committed wilfully

(6) The persons referred to in sub-section (5) are the following namely —

(a) where the company has a managing agent, secretaries and treasurers or managing director or manager, such managing agent, secretaries and treasurers or managing director or manager, and all officers and other employees and agents as defined in sub section (6) of section 240 but excluding bankers, auditors and legal advisers of such managing agent or secretaries and treasurers,

(b) where such managing agent or secretaries and treasurers are a firm, every partner in the firm,

(c) where such managing agent or secretaries and treasurers are a body corporate, every director of such body corporate,

(d) where the company has neither a managing agent nor secretaries and treasurers nor managing director nor manager, every director of the company, and

(e) whether or not a company has a managing agent or secretaries and treasurers every officer and other employee and agent (defined as aforesaid) of the company

(7) If any person, not being a person referred to in sub-section (6), having been charged by the managing agent, secretaries and treasurers, managing director, manager or Board of directors, as the case may be, with the duty of seeing that the requirements of this section are complied with makes default in doing so, he shall, in respect of each offence, be punishable

with imprisonment for a term which may extend to six months, or with fine which may extend to one thousand rupees, or with both.

Q. 377. *What are the requirements of the Companies Act, 1956, as to the preparation of Final Accounts and Balance Sheet?*

A. Section 210 states as follows:

Annual accounts and balance sheet.—(1) At every annual general meeting of a company held in pursuance of section 166, the Board of directors of the company shall lay before the company—

(a) a balance sheet as at the end of the period specified in sub-section (3); and

(b) a profit and loss account for that period.

(2) In the case of a company not carrying on business for profit, an income and expenditure account shall be laid before the company at its annual general meeting instead of a profit and loss account, and all references to "profit and loss account", "profit" and "loss" in this section and elsewhere in this Act, shall be construed, in relation to such a company, as references respectively to the "income and expenditure account", "the excess of income over expenditure", and "the excess of expenditure over income".

(3) The profit and loss account shall relate—

(a) in the case of the first annual general meeting of the company, to the period beginning with the incorporation of the company and ending with a day which shall not precede the day of the meeting by more than nine months; and

(b) in the case of any subsequent annual general meeting of the company, to the period beginning with the day immediately after the period for which the account was last submitted and ending with a day which shall not precede the day of the meeting by more than six months, or in cases where an extension of time has been granted for holding the meeting under the second proviso to sub-section (1) of section 166, by more than six months and the extension so granted.

(4) The period to which the account aforesaid relates is referred to in this Act as a "financial year"; and it may be less or more than a calendar year, but it shall not exceed fifteen months:

Provided that it may extend to eighteen months where special permission has been granted in that behalf by the Registrar.

(5) If any person, being a director of a company, fails to take all reasonable steps to comply with the provisions of this section, he shall, in respect of each offence, be punishable with imprisonment for a term which may

extend to six months, or with fine which may extend to one thousand rupees, or with both

Provided that in any proceedings against a person in respect of an offence under this section, it shall be a defence to prove that a competent and reliable person was charged with the duty of seeing that the provisions of this section were complied with and was in a position to discharge that duty

Provided further that no person shall be sentenced to imprisonment for any such offence unless it was committed wilfully

(6) If any person, not being a director of the company, having been charged by the Board of directors with the duty of seeing that the provisions of this section are complied with, makes default in doing so, he shall, in respect of each offence, be punishable with imprisonment for a term which may extend to six months, or with fine which may extend to one thousand rupees, or with both

Provided that no person shall be sentenced to imprisonment for any such offence unless it was committed wilfully

Q. 378. *State briefly the requirements of the Companies Act, 1956, as to Board's Report*

A. Board's report—(1) There shall be attached to every balance sheet laid before a company in general meeting, a report by its Board of directors, with respect to—

(a) the state of the company's affairs,

(b) the amounts, if any, which it proposes to carry to any reserves in such balance sheet,

(c) the amount, if any, which it recommends should be paid by way of dividend,

(d) material changes and commitments, if any, affecting the financial position of the company which have occurred between the end of the financial year of the company to which the balance sheet relates and the date of the report

(2) The Board's report shall, so far as is material for the appreciation of the state of the company's affairs by its members and will not in the Board's opinion be harmful to the business of the company or of any of its subsidiaries, deal with any changes which have occurred during the financial year—

(a) in the nature of the company's business,

(b) in the company's subsidiaries or in the nature of the business carried on by them, and

(c) generally in the classes of business in which the company has an interest.

(3) The Board shall also be bound to give the fullest information and explanations in its report aforesaid, or in cases falling under the proviso to section 222, in an addendum to that report, on every reservation, qualification or adverse remark contained in the auditors' report.

(4) The Board's report and any addendum thereto shall be signed by its chairman if he is authorised in that behalf by the Board; and where he is not so authorised, shall be signed by such number of directors as are required to sign the balance sheet and the profit and loss account of the company by virtue of sub-sections (1) and (2) of section 215.

(5) If any person, being a director of a company, fails to take all reasonable steps to comply with the provisions of sub-section, (1) to (3), or being the chairman, signs the Board's report otherwise than in conformity with the provisions of sub-section (4), he shall, in respect of each offence, be punishable with imprisonment for a term which may extend to six months, or with fine which may extend to two thousand rupees, or with both:

Provided that no person shall be sentenced to imprisonment for any such offence unless it was committed wilfully:

Provided further that in any proceedings against a person in respect of an offence under sub-section (1), it shall be a defence to prove that a competent and reliable person was charged with the duty of seeing that the provisions of that sub-section were complied with and was in a position to discharge that duty.

(6) If any person, not being a director, having been charged by the Board of directors with the duty of seeing that the provisions of sub-sections (1) to (3) are complied with, make default in doing so, he shall, in respect of each offence, be punishable with imprisonment for a term which may extend to six months, or with fine which may extend to two thousand rupees, or with both:

Provided that no person shall be sentenced to imprisonment for any such offence unless it was committed wilfully. (Sec. 217.)

Q. 379. *The X. Y. Company Ltd., has a Nominal Capital of 40,000 7% Redeemable Preference Shares of £10 each (redeemable on or before the 30th June 1969) and 40,000 Ordinary Shares of £10 each. The Company has also issued 6% £2,00,000 Debentures of £100 each secured by a floating charge over all the assets. £40,000 of these Debentures have been redeemed but are available for re-issue.*

From the following Trial Balance as on 30th June 1967, you are required to prepare a Trading and Profit and Loss Account for the year and a Balance Sheet as on 30th June 1967 —

Stocks on 30th June 1967 were —

Stock-in-Trade £2 66,000, Stores £2,000, Stationery £4,000 Write off depreciation on Furniture and Fittings at 10%, and Plant and Machinery at 5% and £10 000 off Land and Buildings Provide a Reserve of £10,000 in respect of Doubtful Debts Write off 1/3rd of the Preliminary Expenses half the commission on Issue of Shares and half the Discount on Issue of Shares

Investments consist of £40 000 5% War Stock at par and of £80,000, the cost of 16,000 shares of £5 each in M N Co, Ltd, a Subsidiary Company A sum of £40,000 due from M N Co, Ltd, is included amongst Sundry Debtors

A dividend of 10% Free of Tax has been paid by the Subsidiary Company during the year The audited accounts of the Subsidiary Company show—

(a) that the company made a net profit for the year of £18,000,

(b) that a sum of £1,000 was paid as Directors' Fees to the Directors of X Y Company Ltd.,

(c) that the Auditor's report to the Shareholders was qualified by the words "subject to the valuation of stock"

TRIAL BALANCE

As at 30th June 1967

	£	£
Capital—		
Preference Shares fully paid		400 000
Ordinary Shares " "		300 000
Printing and Stationery (including opening stock)	8 000	
Carriage Inwards	6,000	
" Outwards	4 000	
Bad Debts	3 000	
Furniture and Fittings cost less depreciation to 30th June 1966	5 000	
Land and Buildings, cost less depreciation to 30-6-1966	1 30 000	
Plant and Machinery " " " " "	50 000	
Balance at Bank	55 800	
Cash in Hand	5 050	
Debentures		160 000
Sundry Creditors		79 000
Debenture Interest	9 600	
Bills Receivable	115 000	
Sundry Debtors	275 000	
Discounts	20 000	41 800
Dividends and Interest Received (gross)		10 000
Dividend—Preference (paid to 31st December 1966)	14 000	
" Ordinary Interim 6% paid	18 000	
Preliminary Expenses	2,700	
Goodwill at cost	95 400	
Investments	120 000	

TRIAL BALANCE—*contd.*

	£	£
Commission on Issue of Shares	5,600	
Discount on Issue of Shares	4,300	
Lighting and Heating	2,000	
Income-tax	6,950	
Stores (including opening stock)	9,000	
Profit and Loss Account		50,000
Office Rent, Rates, etc.	14,000	
Repairs	3,000	
Purchases	882,000	
General Reserve		80,000
Directors' Fees	2,400	
Salaries	205,000	
Stock-in-Trade, 1st July 1966	280,000	
Sales		1,300,000
Wages	32,000	
Trade Expenses	5,000	
Travelling Expenses and Commission	13,000	
Factory Expenses	20,000	
	2,420,800	2,420,800

A.

THE X. Y. COMPANY LTD.

TRADING AND PROFIT & LOSS ACCOUNT

For the year ended 30th June 1967

		£		£
To Stock-in-Trade, 1-7-1966 ..		280,000	By Sales ..	1,300,000
„ Purchases ..		882,000	„ Stock-in-Trade, 30-6-1967 ..	266,000
„ Carriage Inwards ..		6,000		
„ Wages ..		32,000		
„ Stores (Consumed) ..		7,000		
„ Lighting and Heating ..		2,000		
„ Factory Expenses ..		20,000		
„ Gross Profit c/d. ..		337,000		
	£	1,566,000	£	1,566,000
To Salaries ..		2,05,000	By Gross Profit b/d. ..	337,000
„ Rent, Rates, etc. ..		14,000	„ Discounts (received) ..	41,800
„ Travelling Expenses and Commission ..		13,000	„ Dividends from Subsidiary Co. ..	8,000
„ Printing and Stationery ..		4,000	„ Interest ..	2,000
„ Carriage Outwards ..		4,000		
„ Trade Expenses ..		5,000		
	£			
„ Directors' Fees ..	3,400			
Less paid by Subsidiary Company ..	1,000			
		2,400		
„ Repairs ..		3,000		
„ Bad Debts and Reserve for Doubtful Debts ..		13,000		
„ Discounts (allowed) ..		20,000		
„ Debenture Interest ..		9,600		
„ Depreciation on :—	£			
Furniture & Fittings ..	500			
Land & Buildings ..	10,000			
Plant & Machinery ..	2,500			
		13,000		
„ Net Profit carried to Profit & Loss Appropriation Account ..		82,800		
	£	388,800	£	388,800

PROFIT AND LOSS APPROPRIATION ACCOUNT

	£	£		£
To Preliminary Expenses	900		By Balance b/d from last year	50 000
„ *Commission on Shares*	2 800		„ *Net Profit this year*	82 800
„ Discount on Shares	2 150			
		5 850		
„ Income tax		6 950		
„ Preference Dividend (paid to 31 12 66)		14 000		
Ordinary Dividend (Interim)		18 000		
Balance carried forward		88 000		
	£	132 800	£	132 800

THE X Y COMPANY LIMITED

BALANCE SHEET

As at 30th June 1967

Liabilities		£
Authorised Capital —	£	
40 000 7% Redeemable Preference Shares of £ 10 each	400 000	
40 000 Ordinary Shares of £ 10 each	400 000	
	£ 800 000	
Issued Subscribed and Paid up Capital — 40 000 7% Redeemable Preference Shares of £ 10 each fully paid (redeemable on or before 30th June 1969)	400 000	
30 000 Ordinary Shares of £ 10 each fully paid	300 000	
		700 000
General Reserve		80 000
6% Debentures of £ 100 each (secured by a floating charge over all the assets)	200 000	
Less Redeemed and available for re issue	40 000	
		160 000
Sundry Creditors		79 000
Profit and Loss Appropriation Account		88 000
	£	1 107 000

Assets		£
Goodwill at Cost		95 400
Land & Buildings at cost	£	
Less Depreciation written off to 30 6 66	130 000	
Less Depreciation for this year	10 000	
		120 000
Plant & Machinery at cost *Less* Depreciation written off to 30-6 66	50 000	
Less Depreciation for this year	2 500	
		47 500
Furniture and Fittings at cost *Less* Depreciation written off to 30-6-66	5 000	
Less Depreciation for this year	500	
		4,500
Stock in Trade		266 000
Stock of—Stores	2 000	
Stationery	4 000	
		6 000
Sundry Debtors	235 000	
Less Reserve for Doubtful Debts	10 000	
		225 000
Bills Receivable		115 000
Amount Due from Subsidiary Company		40 000
Investments in Subsidiary Company M N Co Ltd, at cost		80 000
Investments in Gilt-edged Securities		40 000
Cash at Bank	55 800	
Cash in Hand	5 050	
		60 850
Preliminary Expenses	2 700	
Less written off this year	900	
		1 800
Commission on Issue of Shares	5 600	
Less written off this year	2 800	
		2 800
Discount on Issue of Shares	4,300	
Less written off this year	2 150	
		2 150
	£	1 107 000

Q. 380. *Give a brief summary of the decisions in the leading English Cases bearing on the question of Divisible Profits.*

A. The following are the most important decisions regarding the question of Divisible Profits.

Lee *v.* Neuchatel Asphalte Co. Ltd.—In this case, it was decided that where a company was formed to work a wasting asset such as a mining lease or concession, and the Articles specifically stated that it was not necessary to provide for the depreciation of such asset prior to declaring a dividend, there was nothing in the Companies Act to compel it to do so.

Crabtree *v.* Crabtree.—In this case, it was held that in the ordinary course of ascertaining the profits of a manufacturing business where machinery is employed for the purpose of earning such profits, it is essential that in addition to writing off all sums necessarily expended on repairs and renewals to machinery, a proper sum in respect of depreciation of that asset should also be charged to revenue before arriving at the net profits of the business.

Verner *v.* General Commercial and Investment Trusts.—It was decided in this case that, subject to its Articles, an Investment Trust Company may distribute a dividend out of the excess of current revenue over its current expenditure without making good the loss arising from diminution in value of its investments. The investments in this case were fixed assets and the loss in their value was a capital loss.

Bolton *v.* Natal Land & Colonisation Co.—Held that a Company may declare a dividend out of current profits without necessarily making good the loss of Capital assets. The fact that a company had written up the value of its land some years back and credited the appreciation to the profit of that year, did not place it under any obligation to bring into account in every subsequent year the increase or decrease in the value of its lands.

Wilmer *v.* McNamara.—It was held that a dividend can be paid out of current profits without providing for depreciation of fixed assets of a transport company which consisted of goodwill, leasehold premises, horses and vans, plant, etc.

The Ammonia Soda Co. Ltd. *v.* Chamberlain and Others.—It was held that the Companies Acts did not impose any obligation upon a Limited Company, nor did the Law require that it should not distribute as dividend the clear net profits of its trading unless its paid-up capital was intact or until it had first made good all losses incurred in previous years.

Stapley *v.* Read Bros.—It was held that for the purpose of declaration of dividends out of the profits earned in a particular year, it was not necessary to make good the previous debit, if any, standing on the Profit and Loss Account, the Court in this respect affirming the decision in **Ammonia Soda *v.* Chamberlain.** It was further held that the writing off of the Goodwill

out of the profits in the previous years did not amount to a permanent capitalisation of such profits and that the Company was not precluded, in any *subsequent year, from writing back to Goodwill Account, a sum not exceeding* its then fair value by giving a corresponding credit to Profit and Loss Account and treating such profit as available for dividend This is provided there is nothing in the constitution of the Company prohibiting such a procedure

Lubbock v The British Bank of South America Ltd—It was decided in this case that profit made on the sale of a part of the business was no doubt profit on Capital and not part of the Capital itself, as the sum was the surplus ascertained on the assets side after the liabilities and capital were placed on one side and the assets on the other That as the Company's Articles per*mitted such a distribution the directors were justified in carrying over such* profit to Profit and Loss Account

Wall v London & General Provincial Trust Co Ltd—It was held that, having regard to its Articles, the company cannot treat profits made on redemption to its Debentures as being available for dividend The view taken by the Court was that the Company could not regard such a profit in the nature of a revenue profit as it resulted from the extinction of the company s own liabilities The Company's Articles in this case had distinctly laid it down that no dividend or bonus should be payable except out of the net profits arising out of the business of the company

Foster v The New Trinidad Lake Asphalte Co Ltd.—In this case, it was decided that the profit made on the realisation of an asset taken over by a company on its formation is not available for Dividend, even though such asset be a book debt, without due regard to the value of the assets as a whole

Bond v The Barrow Haematite Steel Co Ltd—In this case, it was held that Preference Shareholders cannot claim to be paid Dividends out of current profits as a matter of right and without regard to such provision for Reserves as the Directors may deem necessary

Q 381 *What general conclusions can you draw from the above decisions in regard to profits available for Dividends?*

A The following conclusions can be drawn from the above decisions in regard to profits available for dividends —

(1) A dividend pre-supposes a trading profit or a surplus

(2) The Company Law does not require a company to maintain its capital intact but merely forbids any part of the capital to be returned to its shareholders

(3) Neither the sanction of a General Meeting nor an express authority in the Memorandum or the Articles can justify the payment of a dividend out of capital

(4) Whether it is necessary or not for a company to replace capital previously lost before distributing the current profits depends entirely on the company's own regulations; but the company must retain sufficient assets to enable it to pay off its debts and liabilities while declaring dividends.

(5) Depreciation or Loss on Floating or Circulating Assets must always be made good before the payment of a dividend.

(6) Depreciation of Fixed Assets need not necessarily be provided for before the payment of a dividend; but as to whether such a provision is necessary or not will be a question of fact, to be determined by the Court, with due regard to the circumstances of each particular case and the regulations of the company concerned.

(7) In case of a manufacturing concern, due provision must be made for Depreciation of Plant and Machinery before ascertainment of divisible profits.

(8) Unless so required by its Articles, a company formed to work a wasting asset need not necessarily provide for depreciation of such asset before arriving at divisible profits.

(9) That if a company paid dividends in any one year out of a credit balance on Profit and Loss Account of that year properly arrived at, then such dividend is not paid out of Capital.

(10) Assets may be re-valued, provided it is done honestly and with the approval of the shareholders. An asset that may have been over-depreciated in the past may be written up, and the surplus thus arising may be utilised in writing down another asset, in order that the book value of each may be brought nearer the present value.

(11) Capital Profits or any accretion in the value of fixed capital of a Limited Company can only be distributed, if after a re-valuation of all the assets and liabilities of the company, there is a distinct surplus over the Capital; it is equally necessary to see that such capital profit is realised in cash and the regulations of the company allow such a distribution.

Q. 382. (a) *What do you understand by the terms "Intrinsic Value" and "Market Value" of shares?*

(b) *Given below is the Balance Sheet as on 30th June 1967 of Khangi Company Ltd., a Private Company. You are asked to ascertain the "Intrinsic Value" and the "Market Value" of the Shares.*

Liabilities		Rs	*Assets*	Rs
Issued Capital —			Goodwill at cost	85 000
75 000 shares of Rs 10 each, fully paid		7,50 000	Buildings at cost	3,25 000
Workmen s Provident Fund		15 000	Furniture at cost	5,000
Reserve Fund		75 000	Stock at cost	8,50 000
Reserve for Doubtful Debts		25,000	Investments in Gilt edged Securities at cost	3,20 000
Depreciation Funds —	Rs			
Buildings	50,000		Sundry Debtors	3,35,000
Furniture	1 000		Cash and Bank Balances	51,000
		51,000		
Investment Fluctuation Fund		*62 000*		
Sundry Creditors		*78 000*		
Profit and Loss Account —	Rs			
Balance	1,25,000			
Profit for the year to *30-6-1967*	*7,90,000*	*9,15,000*		
	Rs	19,71 000	Rs	19,71 000

The Company is expected to maintain its profit-earning capacity for *the next year* *The average annual yield of companies in similar line of trade* is 20% on the market value of their shares The Goodwill of the company is worth four times the amount shown in the books The other assets are worth the values stated in the Balance Sheet, less the respective reserves created against them The net income received from Investments during the year ended 30th June 1967 was Rs 13,000 Make calculations to the nearest Rupee

A. (a) The **Intrinsic Value** of a share is the value arrived at on the basis of the net assets of the company on a certain date In order to arrive at the net assets, the assets should be taken at their present value to the business as a going concern From the total assets should be deducted all the liabilities on that date and the balance will be the amount of net assets This amount should be divided by the number of shares subscribed at the date of the Balance Sheet, and the ultimate result will be the Intrinsic Value of each share If the present value of the assets are different from those indicated in the last Balance Sheet, the Balance Sheet values must be ignored and the assets must be taken at their present worth, in order to arrive at the *true intrinsic worth of the business*

The **Market Value** of shares, on the other hand, is arrived at on the basis *of the yield obtained or profits earned on the shares* In order to ascertain the market value, it is necessary to find out the percentage of profits earned by the company on the net assets employed in the business For this purpose, non-trading assets and non trading income should be excluded so that the true effective capital employed in the business can be ascertained The percentage of profit earned on the capital employed gives the profit-earning capacity of the business The average profit earning capacity of businesses of a similar type should then be compared on the basis of the market values of their shares

(b) INTRINSIC VALUE OF SHARES.

			Rs.
Total Book Value of the Assets			19,71,000
Add Appreciation in the value of Goodwill			2,55,000
		Rs.	22,26,000
Less Reserve for Doubtful Debts		25,000	
" Depreciation Funds—	Rs.		
Buildings	50,000		
Furniture	1,000		
		51,000	
" Investment Fluctuation Fund		62,000	
			1,38,000
" Present Value of the Assets on a going concern basis = Rs.			20,88,000
Less Liabilities—			
Workmen's Provident Fund		15,000	
Sundry Creditors		78,000	
			93,000
Net Assets = Rs.			19,95,000

∴ The Intrinsic Value of each share is—

$$\frac{19,95,000}{75,000} = \text{Rs. } 27 \text{ approximately.}$$

MARKET VALUE OF SHARES.

			Rs.
Total Book Value of the Assets			19,71,000
Less Non-trading Assets—Investments			3,20,000
			16,51,000
		Rs.	
Less Reserve for Doubtful Debts		25,000	
" Depreciation Funds—	Rs.		
Buildings	50,000		
Furniture	1,000		
		51,000	
			76,000
			15,75,000
" Trade Liabilities—			
Sundry Creditors		78,000	
Workmen's Provident Fund		15,000	
			93,000
Effective Capital employed in the business = Rs.			14,82,000

The profit earned on the above is—	
Net Profit for the year ended 30-6-1967	7,90,000
Less Non-trading Income—	
Income from Investments	13,000
Trading Profit = Rs.	7,77,000

The profit-earning capacity of the company is therefore

$$\frac{7,77,000 \times 100}{14,82,000} = 52.4\%$$

The market value of the shares on the basis of the profit earning capacity of other businesses is therefore

Profit-earning capacity of other businesses per cent	Profit-earning capacity of this company per cent	Market Value of shares in other companies per cent	Market value of shares in this company per cent
20	52 4	100	262

The Market Value of each share of Rs 10 is $\frac{262}{13}$ = Rs 26 approximately

Q 383 *The Autobus Company Ltd, was formed with a Capital of Rs 20,00,000 divided into 1,00,000 shares of Rs 20 each The whole amount was offered to the public The Company entered into underwriting agreements with the following persons who have underwritten the whole issue in the proportions stated —*

P 30 000, Q 25 000, R 20,000, S 7,500, T 15,000, V 2,500

All marked forms were to go in relief of the underwriters whose names they bear

Applications for 20,000 shares were received on forms not marked.

The applications on forms marked by the underwriters were P 12,500, Q 55,000, R 10,000 S 10,000 T 7,500 and V nil

Show the ultimate liability of each underwriter in respect of his agreement

A.

	P	Q	R	S	T	V
Number of Shares underwritten	30,000	25,000	20 000	7,500	15 000	2 500
Number of Shares Subscribed through each underwriter	12,500	25 000	10 000	10 000	7,500	
Balance being maximum personal liability of each underwriter	17,500		10 000		7,500	2,500

	Rs
Total Shares underwritten	1,00 000
Less Subscription on Underwriters' forms	65,000
	35 000
Less Direct Subscriptions ,	20,000
Balance being net liability of Underwriters in shares	15,000

This Liability is apportioned as under:—

	Total maximum liability of Underwriters	Maximum liability of each Underwriter	Total Net liabilities of Underwriters	Net liability of each Underwriter
P.	37,500	17,500	15,000	7,000
R.	37,500	10,000	15,000	4,000
T.	37,000	7,000	15,000	3,000
V.	37,000	2,500	15,000	1,000

Underwriters' Liability:—

P.	7,000 Shares		1,40,000
R.	4,000 „		80,000
T.	3,000 „		60,000
V.	1,000 „		20,000
	15,000 „	Rs.	3,00,000

Notes:—(1) The liability in respect of shares remaining unsubscribed for should be apportioned only between those underwriters who have failed to introduce applicants to the full extent of the limit they had underwritten.

(2) The proportion in which the liability in respect of shares not taken up should be allocated is the proportion of the balances on each underwriter's account remaining after deducting from their respective gross liabilities the number of shares applied for through them, and not the proportion in which they have underwritten the whole issue of capital.

Q. 384. *Audrey Ltd. invited applications for* 200,000 *of its* £1 *Ordinary Shares on the following terms:*

Payable on application on January 31*st*, 1956.. 10*s per share*

Payable on allotment on February 28*th*, 1956 (*including the premium of* 1*s per share*) .. 6*s per share*

Payable on first and final call on June 30*th*, 1956 .. .. .. 5*s per share*

Applications for 250,000 *shares were received. It was decided:*

(*a*) *to refuse allotment to the applicants for* 10,000 *shares;*

(*b*) *to allot in full to the applicants for* 40,000 *shares;*

(*c*) *to allot the balance of the available shares* pro rata *among the other applicants;*

(d) to utilize excess application moneys in part payment of allotment moneys

One applicant to whom shares had been allotted in full did not pay the amount due on call and his 200 shares were forfeited The shares were reissued on October 31st, 1956, at 18s

Show the Journal and Cash Book entries necessary to record the foregoing

A

JOURNAL

1956			L F	£	£
Feb 28	Application and Allotment Account To Sundries Ordinary Share Capital Account Share Premium Account (10s on application and 6s on allotment [1s thereof being premium] on 200 000 Ordinary Shares of £1 each allotted as per minute dated)	Dr		160 000 160 000	 150 000 10 000 160 000
June 30	First and Final Call Account To Ordinary Share Capital Account (First and Final Call of 5s per share on 200 000 Ordinary Shares of £1 each)	Dr		50 000	 50 000
	Ordinary Share Capital Account To Sundries Forfeited Shares Account First and Final Call Account (Forfeiture of 200 Ordinary Shares of £1 each for non payment of First and Final Call of 5s per share)	Dr		200 200	 150 50 200
Oct 31	Forfeited Shares Reissued Account Forfeited Shares Account To Ordinary Share Capital Account (Reissue of 200 forfeited shares credited as fully paid up at 18s per share)	Dr "		180 20	 200
	Forfeited Shares Account To Share Premium Account (Transfer of balance on Forfeited Shares Account being excess amount received on 200 shares reissued)	Dr		130	 130

Note Since the £10 premium on the original issue of the 200 shares subsequently forfeited had been received in cash there is no necessity to transfer it to Forfeited Shares Account on the forfeiture of the shares

The balance of £130 remaining on Forfeited Shares Account after the 200 shares have been reissued, represents an additional sum in excess of the nominal value received by the company on the issue of these shares and has been transferred to Share Premium Account

CASH BOOK

1956		£	1956		£
Jan. 31	To Application and Allotment Account—10*s* per share payable on application for 250,000 shares	125,000	Jan. 31	By Application and Allotment Account—Application money returned on applications for 10,000 shares ..	5,000
Feb. 28	" Application and Allotment Account—Balance due on allotment being 6*s* per share on 200,000 shares .. £ 60,000 *Less* Overpaid on application —10*s* per share on 40,000 shares 20,000	40,000	Oct. 31	" Balance carried down ..	210,130
June 30	" First Call Account—5*s* per share on 199,800 shares ..	49,950			
Oct. 31	" Forfeited Shares Reissued Account—Reissued of 200 shares at 18*s* per share ..	180			
	£	215,130		£	215,130
Oct. 31	To Balance brought down ..	210,130			

Q. 385. *Z. Ltd. is a manufacturing company. Included in its Balance Sheet at March 31st, 1955, were the following assets:*

	£	£
Fixed Assets:		
Freehold Factory at cost		25,000
Plant at cost	14,000	
Less Accumulated Depreciation	4,000	
		10,000
Current Assets:		
Stock		16,500

These assets were insured for the following sums:

	£
Factory Buildings	30,000
Plant	16,000
Stock	16,000

On June 30th, 1955, the factory and its contents, which included all the items shown above, were totally destroyed by fire, apart from stock salvaged. The following losses were agreed with the fire assessors:

	£
Factory Buildings	28,000
Plant	15,000
Stock (subject to average)	24,000

The total stock at the date of the fire was valued at £30,000 of which £6,000 was salvaged

The claims were paid on September 30th, 1955

The freehold land was estimated by the directors to have cost £4,000 out of the total cost of land and buildings of £25,000

Record the foregoing in the books of the company and show how these items would be disclosed in the accounts of the company for the year ended March 31st, 1956

A

Z LTD

JOURNAL

			L F	£	£
1955 Sept 30	Cash To Insurance Claim (Being claims admitted and paid following destruction of factory by fire Factory Buildings Plant Stock $\left(\frac{16\,000}{30\,000} \times £24\,000\right)$	Dr £ 28 000 15 000 12 800 55 800)		55 800	 55 800
1956 Mar 31	Freehold Land Insurance Claim *To Freehold Factory* Capital Reserve (Being transfer of cost of land as estimated by the directors and surplus of insurance claim over book value of factory transferred to Capital Reserve)	Dr		4 000 28 000	 25 000 7,000
	Insurance Claim Provision for Depreciation of Plant To Plant Capital Reserve General Reserve (or Profit and Loss Account) (Being surplus of insurance claim over original cost of plant transferred to Capital Reserve and Provision for Depreciation no longer required written back to Revenue Reserves)	Dr "		15 000 4 000	 14 000 1 000 4 000
	Insurance Claim Profit and Loss Account To Trading Account (Being cost of stock lost in fire transferred to Trading Account and loss due to under insurance written off to Profit and Loss Account)	Dr		12 800 11 200	 24 000

Assuming the insurance claim to have been settled before March 31st, 1956 the following information should be given in the company's accounts for the year ended March 31st, 1956 laid before the members

(1) Profit and Loss Account should be charged with £11 200 loss of stock by reason of the fire

(2) General Reserve (or Profit and Loss Account) should be credited with £4,000 provision for depreciation on plant destroyed no longer required.

(3) Capital Reserve would be credited with:

Surplus of Insurance Money received over Book Values of Assets

	£
Factory	7,000
Plant	1,000
	£8,000

Q. 386. *Icicles Ltd. traded in refrigerators, selling them mainly on hire purchase terms, the legal property of the goods not passing until the final instalment was paid.*

The following is a representative sale on these terms:

On February 28th, 1958, a refrigerator, costing £60, was sold for an immediate deposit of £40 and ten monthly instalments of £5 each, the first instalment being due on March 31st, 1958.

All amounts due were received on their due dates with the exception of that due on June 30th, 1958, which was not received until July 7th, 1958.

On the basis that the hire purchase price is not regarded as including any interest charge, you are required, in respect of the above representative sale,

(*a*) *to show the profit for which, on a normally accepted basis, credit would be taken in the Accounts for the six months ended June 30th, 1958, and*

(*b*) *to show, with appropriate narrative, how any outstanding items relating to the transaction would appear in the Balance Sheet as on June 30th, 1958.*

A.

(*a*) PROFIT ON REFRIGERATOR for 6 months ended June 30th, 1958

	£	£
Cash received — Deposit	40	
3 instalments	15	
		55
Instalment due but not received		5
Stock out on hire (see note)—£60 $\times \frac{30}{90}$		20
		80
Less Cost of refrigerator		60
Profit ..		£20

Note:—The stock out on hire is valued at:

$$\text{Cost} \times \frac{\text{Amount of instalments not yet due} = £30}{\text{Total Hire Purchase Price} = £90}$$

(b) BALANCE SHEET as on June 30th, 1958

CURRENT ASSETS	£
Stock on hire purchase, being instalments not yet due on current contracts	20
Sundry Debtors for hire purchase instalments due	5

Q. 387. The following is a summary of the Balance Sheet of Arduous Ltd, as on June 30th, 1955

		£		£	£
Share Capital—			Fixed Assets—net	.	137,000
Issued and fully paid			*Current Assets—*		
50 000 6 per cent Redeemable Preference Shares of £1 each		50,000	Stock in trade	74 000	
90 000 Ordinary Shares of £1 each		90,000	Debtors	16 000	
Share Premium Account		10,000	Investments, at cost (Market value £28,000)	30 000	
Revenue Reserves	£		Balance at bank	18,000	
General	70 000				138,000
Profit and Loss Account	25,000				
		95 000			
Current Liabilities		30 000			
	£	275,000		£	275,000

The company exercised its option to redeem, on July 1st, 1955, the whole of the preference shares at a premium of 5 per cent

To finance the redemption, all the investments were realized at the market value stated on the Balance Sheet and 10,000 ordinary shares of £1 each were issued, at 24s per share, payable in full on July 1st, 1955, all these were taken up

On August 1st, 1955, the company made a bonus issue of one ordinary share, fully paid, for each two ordinary shares held on that date

The directors wish that only the minimum reduction should be made in revenue reserves

You are required to draft Journal entries, including those relating to the bank account, to record these transactions

Ignore expenses

A.

ARDUOUS LTD.

JOURNAL

			L.F.	£	£
1955 July 1	Application and Allotment	Dr.		12,000	
	To Ordinary Share Capital				10,000
	„ Share Premium				2,000
	(Being issue of 10,000 £1 Ordinary Shares at 24s payable in full.)				
	Cash	Dr.		12,000	
	To Application and Allotment				12,000
	(Being cash received on issue of shares.)				
	Cash	Dr.		28,000	
	To Investments				28,000
	(Being cash realized on sale of investments.)				
	Profit and Loss	Dr.		2,000	
	To Investments				2,000
	(Being Loss on realization of investments written off.)				
	Redeemable Preference Share Capital	Dr.		50,000	
	To Sundry Preference Shareholders				50,000
	(Being transfer of amount due on redemption.)				
	Share Premium	Dr.		2,500	
	To Sundry Preference Shareholders				2,500
	(Being provision of premium on redemption of redeemable preference shares.)				
	Sundry Preference Shareholders	Dr.		52,500	
	To Cash				52,500
	(Being discharge of amount payable on redemption.)				
	General Reserve	Dr.		40,000	
	To Capital Redemption Reserve Fund				40,000
	(Being transfer to capital redemption reserve fund of an amount equal to the nominal amount of the shares redeemed out of profits.)				
Aug. 1	Capital Redemption Reserve Fund	Dr.		40,000	
	Share Premium	„		9,500	
	General Reserve	„		500	
	To Share Bonus				50,000
	(Bonus issue of one ordinary share for every two held per resolution of this day.)				
	Share Bonus	Dr.		50,000	
	To Ordinary Share Capital				50,000
	(Satisfaction of bonus by issue of 50,000 fully paid shares.)				

CHAPTER VIII

DEPRECIATION, SINKING AND OTHER FUNDS

Q. 388. *What is Depreciation and why should it be brought into account?*

A. Depreciation denotes a permanent decline in the value of assets arising through wear and tear from the use of those assets in business As the assets used for the purposes of business shrink in value from year to year, it becomes necessary that their book values should also be written down accordingly, as otherwise they will be overstated and the Balance Sheet will fail to represent the correct financial state of the business Besides, as the loss by way of depreciation results directly from the assets being utilised for the purpose of earning income, it is but fair that such loss should be charged or set off against such income, in order to arrive at the true net profits earned during any stated period It need hardly be stated that the loss arising by way of depreciation is over and above the amounts expended annually in respect of repairs and renewals which are necessary to maintain those assets in their state of original efficiency

Q. 389. *Enumerate the different methods of providing for depreciation*

A. The following are the several methods employed for charging depreciation —

(1) Fixed Instalment Method

(2) Reducing Balance Method

(3) Annuity System

(4) Depreciation Fund Method

(5) Insurance Policy Method

(6) Revaluation Method

Q. 390. *Discuss the different methods of depreciation and mention the circumstances under which each method can be employed advantageously*

A. **Fixed Instalment Method.**—Under this method, a fixed proportion of the original cost of the asset is written off each year so that the asset account in question may be reduced to zero or its residual value at the end of a definite period representing its estimated life **This method can be usefully employed in case of assets like furniture and fixtures, short leases, etc.** which involve little capital outlay, as the only thing that can be said in its favour is its simplicity The amount chargeable in respect of depreciation under this method is constant from year to year

Reducing Balance Method.—Under this method, depreciation is written off at a fixed rate per cent on the reducing balance of the asset account as appearing at the commencement of each year, so as to bring down the book value of the asset to its residual value by the time the asset becomes useless for revenue-earning purposes. This method is usually adopted in case of plant and machinery. As the fixed rate is calculated on the diminishing balance of the asset each year, it follows that the amount chargeable to revenue in respect of depreciation will become less and less as the years progress. It needs to be remembered, however, that in case of an asset of the nature of plant and machinery, the amount to be expended thereon annually in respect of repairs and renewals becomes heavier as the asset grows older. The advantage of this method of depreciation, therefore, lies in the fact that it tends to equalise the charge against revenue each year in respect of depreciation and repairs put together. For, whereas the amount of depreciation will be heavier during the earlier years, the same will be counter-balanced by the amounts expended on repairs being lighter, and as the years progress, whereas the charge for depreciation will be on the down-grade, the amounts chargeable in respect of repairs will become heavier as the asset grows older.

Annuity System.—Under this method, interest at a fixed rate is calculated on the capital outlay involved in the acquisition of the asset on the assumption that if the same amount of capital was employed in some other investment it would have earned a certain rate of interest. The owner of the business, therefore, during the period that he utilises any asset not only loses the original cost of that asset in shape of depreciation but also loses the interest thereon, and under the annuity system, the cost of the asset as also the interest thereon are written down annually by equal instalments until the book value of the asset in question is reduced either to zero or its residual value at the end of its usefulness to the business. The annual amount to be thus written off will be ascertained from the Depreciation Annuity Tables and the following entries will have to be passed at the end of each year. Interest at a fixed rate calculated on the opening balance of the asset account will be debited to the Asset Account and credited to Interest Account. The fixed amount as ascertained from the Tables will then be debited to Depreciation Account and credited to the Asset Account. This method can be used advantageously, chiefly in respect of long leases which generally involve a considerable capital outlay. It will not be suitable for adoption in case of Plant and Machinery, as fresh calculations will have to be made each time any additions are made or any obsolete plant is discarded. Where it is desired not merely to write off an asset but also to provide for its replacement at the time it becomes valueless, the Depreciation Fund System will be more suitable.

Depreciation Fund System.—This system consists of not only bringing into account the annual loss sustained by the shrinkage in value of the assets utilised for the purposes of trade but also provides fund for their replace-

ment at the time when the old assets have to be discarded and have to be replaced by new ones without in any way disturbing the financial condition of the business The steps necessary to work this system are as follows —

(1) Under this method, the asset account is allowed to stand in the books at its original cost from year to year At the end of each balancing period such a sum is debited to Depreciation Account and credited to Depreciation Fund Account which if invested in gilt edged securities from year to year during the life of the existing asset will accumulate at compound interest to a sum required to replace the original asset at the time when it becomes useless

(2) When a corresponding amount is invested in outside securities the entry will be to debit Depreciation Fund Investment Account and credit Bank

(3) The periodical interest realised on these ear marked securities will be debited to Bank and credited to Depreciation Fund Account and will also be invested in the same class of securities The result of this procedure will be that by the time the existing asset has entirely worn out and has become useless for the purposes of the business a fund will have been built up represented by specific securities which can be realised to supply the cash necessarily required to acquire a similar asset without in any way crippling the financial resources of the business

(4) On the Investments being realised the entry will be
Bank Dr
To Depreciation Fund Investment Account

(5) Any balance on the latter account will now represent profit or loss arising from the sale of these investments and will be transferred to Depreciation Fund Account

(6) The amount realised on the sale of the discarded asset will be credited to the Asset Account concerned.

(7) To Depreciation Fund Account will be closed by its balance being transferred to the Asset Account

(8) Any balance now left on the Asset Account will represent an over or under estimated in respect of depreciation and will be transferred to the Profit and Loss Account

(9) The cash realised on the sale of the specific investments will now be available for the purchase of the new asset.

It needs to be mentioned that the amount which should be set aside each year to provide for the accumulation of a certain sum at compound interest at the end of a definite period is ascertained from ready made Tables

Insurance Policy Method—In some businesses rather than investing the annual amount in gilt edged securities to provide for the Depreciation

Fund as above explained, a Policy will be taken out with an insurance company which will agree to pay a definite sum of money at the end of a specified period in return for certain annual premium payable to them during the period of the policy. The entries under such a circumstance will be as under:—

(1) Depreciation Account .. Dr. ....
To Depreciation Fund Account ....
(To bring into record the annual loss arising from depreciation of the asset.)

(2) Depreciation Fund Policy Account .. Dr. ....
To Bank ....
(For the amount of annual premium paid.)

Note:—The above two entries will have to be passed every year during the continuance of the policy.

(3) Bank Account .. Dr. ....
To Depreciation Fund Policy Account ....
(To record the amount realised on maturity of the policy).

(4) Any difference on Depreciation Fund Policy Account will now be transferred to the Depreciation Fund Account.

(5) Bank Account .. Dr. ....
To the Asset Account ....
(To record the break-up value realised on sale of the discarded asset.)

(6) The Depreciation Fund Account will be closed by transfer of the balance to the old Asset Account.

(7) The balance on the old Asset Account, whichever side it may fall, will be transferred to Profit and Loss Account.

(8) The cash realised on maturity of the policy will now enable a new asset to be acquired without disturbing the other cash resources of the concern.

Revaluation Method.—This method is resorted to in case of assets which call for special considerations such as live stock, loose tools, patents, copyrights, patterns, casks, packages, bottles, etc. and where no other method can be employed to secure satisfactory results. At the end of each financial period, the assets are revalued and the difference between the book value and the revaluation amount is debited to Depreciation Account and credited to the Asset Account. If however, the revaluation figure represents an excess over the book value of the asset, the difference would represent profit, and such gain being of a temporary nature need not be brought into account.

Q 391 *The original cost of Fixtures and Furniture amounted to Rs 4,000, and it is decided to write off 5% on the original cost as depreciation at the end of each year Show the Ledger Account as it will appear during the first four years Show also how the same Account will appear if it was decided to write off 5% on the diminishing balance of the asset each year*

A FURNITURE AND FIXTURES ACCOUNT

(Depreciated on the Fixed Instalment Method)

			Rs				Rs
1st Year	To Bank		4 000	1st Year	By Depreciation , Balance c/d.		200 3 800
		Rs	4 000			Rs	4 000
2nd ,	To Balance b/d.		3 800	2nd „	By Depreciation „ Balance c/d		200 3 600
		Rs	3 800			Rs	3 800
3rd „	To Balance b/d		3 600	3rd	By Depreciation „ Balance c/d		200 3 400
		Rs	3 600			Rs	3 600
4th	To Balance b/d		3 400	4th „	By Depreciation Balance c d		200 3,200
		Rs	3 400			Rs	3 400
	To Balance b/d		3 200				

FURNITURE AND FIXTURES ACCOUNT

(Depreciated on the Diminishing Balance Method)

			Rs P				Rs P
1st year	To Cash		4 000 00	1st Year	By Depreciation Balance c/d		200 00 3 800 00
		Rs	4 000 00			Rs	4 000 00
2nd „	To Balance b d		3 800 00	2nd „	By Depreciation „ Balance c d		190 00 3 610 00
		Rs	3 800 00			Rs	3 800 00
3rd „	To Balance b/d		3 610 00	3rd	By Depreciation Balance c/d		180 50 3 429 50
		Rs	3 610 00			Rs	3 610 00
4th	To Balance b/d		3 429 50	4th	By Depreciation „ Balance c/d		171 47 3 258 03
		Rs.	3 429 50			Rs	3 429 50
	To Balance b/d		3,258 03				

Q. 392. A seven years' lease has been purchased for a sum of Rs. 60,000 and it is proposed to depreciate it under the annuity method charging 4% interest. Reference to the Annuity Method Depreciation Table indicates that the required result will be brought about by charging annually Rs. 9,996.55 P. to Depreciation Account. Show how the Lease Account will appear each of the seven years.

A.

LEASE ACCOUNT

			Rs. P.				Rs. P.
1st Year	To Bank	..	60,000.00	1st Year	By Depreciation	..	9,996.55
	„ Interest	..	2,400.00		„ Balance c/d.	..	52,403 45
		Rs.	62,400.00			Rs.	62,400.00
2nd „	To Balance b/d.	..	52,403.45	2nd „	By Depreciation	..	9,996.55
	„ Interest	..	2,096.14		„ Balance c/d.	..	44,503.04
		Rs.	54,499.59			Rs.	54,499.59
3rd „	To Balance b/d.	..	44,503.04	3rd „	By Depreciation	..	9,996.55
	„ Interest	..	1,780.12		„ Balance c/d.	..	36,286 61
		Rs.	46,283.16			Rs.	46,283.16
4th „	To Balance b/d.	..	36,286.61	4th „	By Depreciation	..	9,996.55
	„ Interest	..	1,451.46		„ Balance c/d.	..	27,741.52
		Rs.	37,738.07			Rs.	37,738.07
5th „	To Balance b/d.	..	27,741.52	5th „	By Depreciation	..	9,996.55
	„ Interest	..	1,109.66		„ Balance c/d.	..	18,854 63
		Rs.	28,851.18			Rs.	28,851.18
6th „	To Balance b/d.	..	18,854.63	6th „	By Depreciation	..	9,996 55
	„ Interest	..	754.18		„ Balance c/d.	..	9,612.26
		Rs.	19,608.81			Rs.	19,608.81
7th „	To Balance b/d.	..	9,612.26	7th „	By Depreciation	..	9,996 55
	„ Interest	..	384.29				
		Rs.	9,996 55			Rs.	9,996.55

Q. 393. A five years' Lease has been acquired for Rs. 50,000 and it has been decided to provide for its annual depreciation as also for its replacement at the expiry of the term on the Depreciation Fund System. A reference to the Depreciation Fund Tables shows that the annual amount to be provided for on the basis of 5% interest works out at Rs. 9.050. Show the necessary accounts affected if the decision is carried out during the five years.

A. DEPRECIATION ACCOUNT

		Rs.			Rs
1st Year	To Depreciation Fund Account	9,050	1st Year	By Profit and Loss Account.	9,050
	Rs.	9,050		Rs	9,050
2nd "	To Depreciation Fund Account .	9,050	2nd "	By Profit and Loss Account .	9,050
	Rs	9,050		Rs	9,050
3rd "	To Depreciation Fund Account	9,050	3rd "	By Profit and Loss Account	9,050
	Rs	9,050		Rs.	9,050
4th "	To Depreciation Fund Account	9,050	4th "	By Profit and Loss Account .	9,050
	Rs	9,050		Rs.	9,050
5th "	To Depreciation Fund Account	9,050	5th "	By Profit and Loss Account.	9,050
	Rs	9,050		Rs.	9,050

DEPRECIATION FUND ACCOUNT

		Rs			Rs.
1st Year	To Balance c/d ..	9,050	1st Year	By Depreciation Account ..	9,050
	Rs.	9,050		Rs	9,050
2nd "	To Balance c/d ..	18,550	2nd "	By Balance b/d ..	9,050
				" Interest ..	450
				" Depreciation Account ..	9,050
	Rs	18,550		Rs	18,550
3rd "	To Balance c/d. .	28,525	3rd "	By Balance b/d ..	18,550
				" Interest .	925
				" Depreciation Account ..	9,050
	Rs	28,525		Rs	28,525
4th "	To Balance c/d .	39,000	4th "	By Balance b/d ..	28,525
				" Interest .	1,425
				" Depreciation Account ..	9,050
	Rs.	39,000		Rs.	39,000
5th "	To Balance c/d .	50,000	5th "	By Balance b/d .	39 000
				" Interest .	1,950
				" Depreciation Account ..	9,050
	Rs	50 000		Rs.	50,000
				By Balance b/d .	50,000

DEPRECIATION FUND INVESTMENT ACCOUNT

			Rs.				Rs.
2nd Year	To Bank	..	9,000	2nd Year	By Balance c/d.	..	9,000
		Rs.	9,000			Rs.	9,000
3rd „	To Balance b/d.	..	9,000	3rd „	By Balance c/d.	..	18,500
	„ Bank	..	9,500				
		Rs.	18,500			Rs.	18,500
4th „	To Balance b/d.	..	18,500				
	„ Bank	..	10,000	4th „	By Balance c/d.	..	28,500
		Rs.	28,500			Rs.	28,500
5th „	To Balance b/d.	..	28,500				
	„ Bank	..	10,500				
		Rs.	39,000				

Notes:—(a) The amount charged to revenue at the end of each year is invested at the commencement of the subsequent year and made to earn interest. Similarly, the interest realised on specific securities is invested in the same class of securities so that the Fund accumulates at compound interest.

(b) To the Investments worth Rs. 39,000 as shown at the commencement of the fifth year, there will be added Rs. 1,950 for one year's interest thereon and the instalment of Rs. 9,050 at the end of the fifth year, so that a fund of Rs. 50,000 would be available for the acquisition of a new Lease.

Q. 394. *How would you distinguish between a Reserve Fund and a Reserve or Reserve Account?*

A. A Reserve Fund may be defined as a sum set aside out of divisible profits and retained in order to provide or unexpected or unknown future losses or to equalise dividends or to strengthen the financial position of the concern. In other words, it is a surplus created out of distributable profits representing the amount by which the assets of a concern exceed the sum of its paid-up capital and liabilities, provided the assets and liabilities are properly valued on the basis of a going concern.

A Reserve Fund cannot exist, side by side, with the debit balance on Profit and Loss Account. In the event of the Profit and Loss Account showing a debit balance, at any subsequent date, the Reserve Fund must automatically disappear to the extent of the deficiency, as otherwise, it would be a contradiction in terms to state on one side of a Balance Sheet, an item representing a deficiency on Profit and Loss Account, and on the opposite side, an item representing a surplus created out of Reserved Profits.

In the absence of special Articles to the contrary, the directors may transfer the whole or any portion of the Reserve Fund to the credit of Appropriation Account for the purpose of increasing the amount of profits available for dividends

A Reserve or a Reserve Account is a provision for some known or expected loss, such as "Reserve for Bad Debts", "Reserve for Discounts", "Reserve for Repairs and Renewals", "Reserve for Disputed Claims", etc It is not, therefore, a surplus—it is not represented by assets—and it is not available for dividends While a Reserve Fund is formed as a result of appropriating profits, a Reserve Account is created by making a charge against Revenue before true profits can be ascertained Whereas it is impossible to create a Reserve Fund except out of divisible profits, a Reserve may be provided even during periods when a loss has been sustained If these "Reserves" were designated "Provisions" and were always shown by way of deduction from the particular assets the loss on which they are intended to cover, no one could then mistake a "Provision for Bad Debts" or "Provision for Renewals" for a Reserve Fund

Q. 395. *Should a Reserve Fund be necessarily invested in specific securities outside the business?*

A. An idea seems to prevail that a Reserve Fund is improperly so called unless it be invested in earmarked securities This seems to be quite erroneous Although in some cases it undoubtedly is very desirable to invest moneys in specific securities to represent the Reserve Fund, so that an easily realisable asset may be available when required, yet in reality the form of the asset has nothing to do with the existence of a Reserve Fund A Reserve Fund may be merged in the general assets of the company The only true test as to the existence of a Reserve Fund is (a) whether it is obtained by a reservation of profits which would otherwise have been distributed, and (b) whether it represents a clear surplus of assets over capital and liabilities The question of employment of the amount representing the Reserve Fund, i e whether invested outside or employed within the business, is a matter of policy for the management to consider and does not affect the reality of the Reserve Fund. If the concern is in need of more working capital, then it is clearly expedient that the surplus representing the "reserved profits" be allowed to remain in the business For instance, where a company has an overdraft on which it has to pay 6 or 7 per cent interest, it would be sheer folly not to pay off such liability but to lock up the Reserve Fund amount in gilt-edged securities yielding from 4 or 5 per cent interest On the other hand, if it appears that an additional working capital cannot be usefully and profitably employed in the business, then the only proper and reasonable course would be to invest the reserved profits in gilt-edged securities outside the business

Q. 396. *State clearly what you understand by a Sinking Fund and how such a Fund differs from a Reserve Fund.*

A. A Sinking Fund is a fund created with the object of providing means for the redemption of liabilities like Debentures or any other loan. It is formed by setting aside, half-yearly or yearly, a fixed sum of money for a definite period, such sum to be invested at compound interest, so that at the end of the period the annual amounts, with accumulations of interest, will be sufficient to discharge a prescribed loan. In such a case, the amount set aside should not be debited to Revenue Account, but to a Net Revenue Account or Profit and Loss Appropriation Account, as being rather in the nature of an allocation of profits than a charge against them.

The term Sinking Fund is often wrongly applied to what is really a provision for the replacement of a wasting asset, invested in liquid assets apart from the business, so that cash may be available at a time when the original asset has to be replaced, without severely dislocating the concern. The amount thus set aside each year is a charge against revenue and not an allocation of profits. It would be clearer if the term Sinking Fund were used only in connection with the provision for the repayment of a future liability and not in connection with the renewal of an asset. The expression Replacement and Renewal Fund would be more appropriate in the latter case. If, however, it is desired to use the term Sinking Fund in either case it may be suggested that the item be made a little bit more explicit in the Balance Sheet—thus "Sinking Fund for Redemption of Debentures" or "Sinking Fund for Replacement of Machinery", etc.

It would be clearly seen from the above that the essence of distinction between a Reserve Fund and a Sinking Fund lies in this, that whereas a Reserve Fund is maintained as a measure of prudence, the amount representing it may or may not be invested in outside securities as may be found financially desirable, a Sinking Fund being created to meet a known liability at a definite future date is a measure of necessity, and should always be invested outside the business.

The advantages of maintaining a Sinking Fund quite distinct from a Reserve Fund are:—

(1) That it draws attention to the fact that investments representing this Fund are acquired with a definite object in view; and

(2) That this fund is not to be utilised for the purpose of equalising dividends, or for any other object than the one for which it was created.

Q. 397. *Explain the meaning and use of* (a) *Dividend Equalisation Fund, and* (b) *Depreciation Fund, and state how the one differs from the other.*

A. A Dividend Equalisation Fund is created by setting aside a portion of distributable profits in good years as a provision for less prosperous years,

so that whenever the company may not make sufficient profits to enable it to declare the usual dividend it may have recourse to this fund The amount representing this fund need not necessarily be invested in outside securities Even where there is no specific Dividend Equalisation Fund, a company can always draw upon its Reserve Fund, if any, for the purpose of equalising dividends

A Depreciation Fund is created where it is desired not only to charge off the annual depreciation of a fixed asset to the revenue account each year but also to provide for a fund by means of investing a corresponding sum each year in gilt edged securities which, if allowed to accumulate at compound interest, will help towards the replacement of the asset at the end of its life, by realising the specific investments

The difference between a Dividend Equalisation Fund and a Depreciation Fund arises this way that whereas the former is creating by charging an available sum to **Profit and Loss Appropriation Account**, the latter is created by a charge on the Profit and Loss Account Whereas, the creation of a Dividend Equalisation Fund must necessarily depend on the surplus profits available after the payment of usual dividends, the amount in respect of depreciation on fixed assets must be **charged** to the **Profit and Loss Account** before arriving at the net profit or the net loss each year Again, whereas the Dividend Equalisation Fund may or may not be represented by specific investments, as that would necessarily depend upon the financial state of the company, the amount representing the Depreciation Fund must be invested in gilt-edged securities so that these may be realised immediately the need for replacement of the asset arises, without in any way disturbing the financial resources of the company

Note—The item of Depreciation Fund which usually finds place on the liabilities side of a company's Balance Sheet, does not appear amongst the Funds in the prescribed Balance Sheet under the Indian Companies Act The reason is that under the heading of 'Fixed Capital Expenditure" on the assets side, the prescribed Form requires the total depreciation written off each asset to be shown by way of deduction from the asset, in order to clearly indicate the net present value of each asset on the basis of a going concern, in the outer column

Q. 398. *What is the object of a Reserve for Repairs and Renewals?*

A. The object of such a Reserve is to equalise the charge against Profit and Loss Account for Repairs and Renewals of Machinery and Plant The cost of repairs necessary to keep the machinery in proper working order naturally increases year after year, as the machinery grows older, and as a result thereof, although the concern gets equal benefit out of the use of this asset each year, the Profit and Loss Account is burdened with a heavier charge in respect of repairs or renewals during the latter years of the life of such

asset. It is in order to equalise this charge to revenue, that some companies maintain a Repairs and Replacements Reserve. An average amount likely to be spent by way of repairs on the asset each year is estimated and this fixed sum is charged to Profit and Loss Account each year and credited to Repairs and Replacements Reserve. The actual repairs of each year are, in this case, set off against this Reserve.

Q. 399. *What do you understand by an Investment Fluctuation Fund?*

A. This item is usually to be found on the liabilities side of the Balance Sheet of Banks, Insurance Companies and other concerns which invest their surplus capital to a considerable extent in Public Funds and other gilt-edged securities. It is a reserve created to provide for the loss by way of fluctuation in the values of these Investments. At each balancing time, the market values of the investments are ascertained, and if the *total market value* is less than the **total cost price**, the fall in value is provided by debiting Profit and Loss Account and crediting the Investment Fluctuation Fund Account.

The Prescribed Form of Balance Sheet under the Companies Act does not include such a Fund on the liabilities side of the Balance Sheet as it presupposes the provision in respect of depreciation on the Investments to be shown as deduction from their cost, on the assets side of the Balance Sheet.

Q. 400. *Explain the meaning of Fire or Marine Insurance Fund appearing on the liabilities side of a Company's Balance Sheet.*

A. Instead of paying premiums to insurance companies for insuring their assets against fire or marine risks, some companies insure their own risks and create reserves for this purpose. They, therefore, set aside each year such a sum as would represent an adequate premium for the amount of the risk covered, charging the same to Revenue and crediting it to Insurance Fund Account. A corresponding sum is then invested in gilt-edged securities which are ear-marked for this purpose. The balance of the Insurance Fund goes on increasing till it represents a fair and reasonable reserve for the risks indicated. This reserve is, therefore, a provision against loss and not a general reserve, although it might in course of time partially represent the latter to the extent by which it would exceed the amount fairly and reasonably necessary for the purpose for which it was intended.

Q. 401. *What is Capital Reserve Fund and how should it be utilised?*

A. Sometimes a Capital Profit is made by a Company by way of appreciation in the value of its land, building or other fixed asset or arising from the sale of any of its fixed assets. Such Capital Profits are transferred to Capital Reserve Fund. The question as to whether such Capital Profits are divisible has been settled in **Foster v. The New Trinidad Lake Asphalte Company Ltd.** In this case, it was decided that Capital Profits are available

for distribution in shape of dividends, subject to the following conditions:— (a) that the Memorandum and Articles allow, (b) that such profits are actually realised, and (c) that such profits remain after a revaluation of the whole of the assets

Besides, profits arising from re-issue of Forfeited Shares, Premium on Shares or Debentures and Profits prior to Incorporation are usually tansferred to Capital Reserve Fund, as such earnings are extraneous to the usual course of the company's business and should not therefore be distributed as dividend from the viewpoint of sound finance and accounting Moreover, it would be illegal to do so, if the Company's Articles prohibit distribution of such profits There would, however, be nothing wrong or illegal if such Capital Profits are first utilised in writing down or wiping off such fictitious assets as Preliminary Expenses, Underwriting Commission, Discount on Debentures or Cost of Issue of Debentures They can even be utilised in reducing or wiping off the book value of Goodwill which is an asset of a fluctuating character or may be set off to reduce or wipe off capital losses

Q. 402. *What do you understand by Secret or Internal Reserve?*

A. The term "Secret Reserve" is applied to a Reserve Fund the existence of which does not appear on the face of the Balance Sheet Where there is a Secret Reserve, the financial position of the concern is, no doubt, better than as appearing from the Balance Sheet

Secret Reserves are created by writing down assets, such as Stock, Book-debts, Plant and Machinery and Premises below their true value, by making excessive provision for outstanding liabilities, by charging capital items to revenue, and by retaining appreciating assets at cost price

Nearly all banks and financial concerns have their Secret or Hidden Reserve created with the object of equalising dividends or to provide a fund out of which heavy losses can be met, without disclosing the fact to the shareholders and the general public The effect of Secret Reserve is to maintain the confidence of the customers and creditors by giving the impress of stability to a prosperous but fluctuating business, to check speculation in its shares and avoid disclosing information to trade rivals Another strong argument in favour of Secret Reserves is that the directors usually experience a sort of weakness on the part of shareholders to deny themselves a full distribution of profits in order to form Reserve Funds which are so very essential for the continued welfare of an undertaking

The arguments against Secret Reserves are that such reserves being not disclosed in the Balance Sheet, the latter fails to accuratly represent the true position of affairs, also that Secret Reserves might be used by unscrupulous directors for most improper purposes, for example, to cover up losses upon *ultra vires* transactions, or for the purpose of private speculations in the shares of the company

CHAPTER IX

COMPANY AMALGAMATION AND RECONSTRUCTION ACCOUNTS

Q. 403. *Explain the terms (1) Amalgamation, (2) Absorption and (3) Reconstruction of Companies.*

A. (1) **Amalgamation** is where two or more companies carrying on business of a like nature combine together and form a new company. The object usually would be to secure economical working by reducing establishment and management charges and to eliminate competition and control the market in a particular line of trade. The companies forming part of such a combine all go into liquidation, and sell their businesses to a new company, which is formed solely to take over the assets and assume the liabilities of the companies going in liquidation. No return of capital is involved, as the shareholders are usually given fully paid shares in the new company in proportion to their holdings in the old company.

(2) The term **Absorption** generally applies where an existing company buys over or absorbs another smaller company doing similar business for a consideration as may be agreed upon with the vendor company. The object here again may be to reduce competition and enhance profits by effecting economy in management. The company bought over goes into liquidation, and the absorbing company purchases the business from the liquidator. The creditors of the absorbed company may either be paid off or the purchasing company may take over the liabilities. The shareholders in the absorbed company may be given shares or cash in return for their holdings.

(3) The term **Reconstruction** as a rule indicates that an existing company on account of past losses in trading, and also due to financial difficulties, goes into liquidation with a view to forming another company to take over the existing concern.

The difference between an absorption and a reconstruction arises from the fact that whereas the former represents the company which is absorbed being taken over by an existing company, the latter denotes the sale of the undertaking to a new company, to be formed specially for such purpose. Besides, in case of an absorption, the shareholders of the absorbed company generally stand to profit from the sale of their business, while a reconstruction will usually result in a loss to the shareholders on account of the company having been financially hard hit due to past losses. Where the company has lost a part of its capital due to losses, the reconstruction scheme may provide for the existing creditors to be satisfied either by a cash composition, or by the issue of debentures and even sometimes shares in the new company. The shareholders may also be called upon to accept partly-paid shares in exchange for their holding in the old undertaking in order to secure fresh work-

ing capital for the new company As the balance on the partly paid shares will necessarily have to be called up at any time, this would encumber the shareholders with a further liability, and it may be that some of them may refuse to accept such a scheme of reconstruction, and in such a circumstance, the liquidator will have to purchase their interest at a price as may be mutually agreed upon In short, a reconstruction scheme presents an opportunity to obtain a new lease of life for the old company by writing off past losses and obtaining further working capital resulting from the creditors and the members all agreeing to sacrifice equitably

Q 404 *What entries should be passed in the books of the company that goes into liquidation for the purpose of amalgamation or absorption?*

A The entries in the books of the Vendor Company will depend on the terms of Amalgamation or Absorption Agreement The purchasing company may take over the assets of the vendor company at book values as shown in the Balance Sheet or on a revaluation as may be mutually agreed upon Sometimes, the purchasing company may only purchase the assets leaving the vendor company to pay off its own liabilities If the vendor company has large Reserves or undistributed balance of profits, it may, prior to the sale of business declare a bonus therefrom to be payable to the shareholders, and the purchasing company will then take over only the net assets after payment of such bonus

The entries for closing the Vendor Company's books will be similar to those made in the books of a partnership at the time of dissolution —

(1) Debit Realisation Account and credit each Asset Account with the book value of the Asset

Note —This will help to close each Asset Account Where the separate value of each asset taken over is named and the business is not purchased in its entirety on the basis of the Balance Sheet given Cash and Bank Balances need not be transferred to Realisation Account

(2) Debit the Accounts of those Liabilities which have been taken over by the Purchasing Company and credit the Realisation Account

Note —This will close the Liability Accounts

(3) Debit the Account of the Purchasing Company and credit Realisation Account with the agreed Purchase-price

Note —Where the purchase price is not given, the same will have to be ascertained by taking the total value of the assets taken over and deducting therefrom the value of the liabilities assumed by the purchasing company

(4) If the Vendor Company has agreed to pay the expenses of liquidation, debit Realisation Account and credit Bank

(5) If, however, it is agreed that the expenses of liquidation should be borne by the Purchasing Company, debit the Purchasing Company's Account and credit Bank.

(6) The balance on Realisation Account will now represent profit or loss on sale of business, and will be transferred to Sundry Shareholders' Account.

(7) The balance on Share Capital Account, Reserve Fund, Profit and Loss Account, any accumulated profit, etc. will be transferred to Sundry Shareholders' Account.

(8) On receipt of Cash and Shares from the purchasing company in satisfaction of the purchase consideration, debit Bank Account and Shares Account, and credit the Purchasing Company's Account.

Note:—Where the shares of the purchasing company are issued at a premium, the Shares Account should be debited with the price including the premium.

(9) When the Cash and Shares are distributed amongst the shareholders, debit Sundry Shareholders' Account and credit Bank and Shares Accounts.

The above entries will close the books of the Vendor Company.

Note:—While closing the books of the Vendor Company, the following special points will need careful attention:—

Reserve Fund, Dividend Equalisation Fund, Contingency Fund, etc.—These items represent accumulated profits and are therefore not taken over by the Purchasing Company. The balance on these accounts should be transferred to Shareholders' Account.

Workmen's or Employees' Profit-sharing Funds.—These represent part of the profits of the business belonging to the workmen or employees who have a right to share in the profits of the business under a Profit-sharing Agreement. These credit balances, therefore, represent liabilities and should be transferred to the Purchasing Company, if the latter takes over the liabilities.

Pension Fund, Provident Fund, Staff Retirement Fund, Super-annuation Fund, etc.—Where such funds are created and maintained out of deductions made from the salaries and wages of the staff as also by periodical contributions of the employers and are allowed to accumulate at compound interest, the total amount accumulated on account of each employee is generally paid to him either on death or retirement or on leaving service under some definite rules and regulations. These funds are, therefore, specific liabilities payable to the employees at a future date, and should therefore be transferred to the Purchasing Company, if the latter takes over the liabilities.

Workmen's Compensation Fund, Employer's Liability Fund, Accident Compensation Fund, etc.—These funds are created out of profits for the pur-

pose of meeting contingent liability of the company in respect of compensation payable to an employee or his family in the event of death or an accident to the employee while carrying out his duties during the ordinary course of the business When such claims are paid, they are debited to the Fund, and the balance on the Fund Account at any date represents accumulations or profits against which there are no claims payable as at that date This profit belongs to the shareholders of the Vendor Company, and, as such, should be transferred to Shareholders' Account

Insurance Fund—This fund is created by certain types of companies for the purpose of meeting losses through fire or marine accidents The fund is created out of profits and when any losses from fire or marine accident arise, they are charged to this Fund and not to Profit and Loss Account The balance on this Fund Account at any date represents accumulated profits after meeting all losses which may have arisen It is not a liability, but profits belonging to the shareholders of the Vendor Company, and should be transferred to Shareholders' Account

Q. 405 *What Entries should be passed in the books of the Purchasing Company?*

A. In the books of the Purchasing Company, the following entries will be necessary —

(1) Debit Business Purchase Account and credit the Vendor Company with the total purchase price payable

(2) Debit the Account of each asset taken over at the agreed value and credit Business Purchase Account

(3) Debit Business Purchase Account and credit each Liability Account, if the liabilities are taken over

(4) The balance on Business Purchase Account, if it is a debit, will represent Goodwill and will be transferred to Goodwill Account If the balance is credit, it will be transferred to Capital Reserve Account

(5) Debit the Vendor Company and credit Share Capital Account with the nominal value of the shares issued to the Vendors as fully paid, and credit Bank Account with the amount of cash paid, if any, in satisfaction of the purchase consideration

Note —Where the shares are issued at a premium, the amount of premium should be credited to Premium on Shares Account quite distinct from the Share Capital Account

Q. 406. *Two companies with similar businesses decide to amalgamate on the basis of their respective Balance Sheets as shown below, and form themselves into a new company Show by working what amount of shares in the New Company will be due to the Share-*

holders of the old companies and give the opening entries and the Balance Sheet of the New Company.

THE A. B. C. CO. LTD.

BALANCE SHEET

	Rs.		Rs.
Share Capital—		Land and Buildings	60,000
10,000 Shares of Rs. 10 each, fully paid	1,00,000	Plant and Machinery	30,000
Reserve Fund	22,000	Stock	40,000
Dividend Reserve	15,000	Debtors	25,000
Sundry Creditors	17,500	Cash at Bank	2,500
Profit and Loss Appropriation Account	3,000		
Rs.	1,57,500	Rs.	1,57,500

THE X. Y. Z. CO. LTD.

BALANCE SHEET

	Rs.		Rs.
Share Capital—		Land and Buildings	55,000
12,000 Shares of Rs. 10 each, fully paid	1,20,000	Plant and Machinery	40,000
Creditors	40,000	Stock	25,000
Bank Overdraft	10,000	Debtors	20,000
		Profit and Loss Account—Loss	30,000
Rs.	1,70,000	Rs.	1,70,000

The Goodwill of the A. B. C. Co., Ltd., was valued at Rs. 20,000 and that of the X. Y. Z. Co., Ltd. was taken at nil.

A. The amounts due to the Shareholders of the old companies will be ascertained as under:—

A. B. C. Co., Ltd.	Rs.	X. Y. Z. Co. Ltd.,	Rs.
Gross Assets	1,57,500	Gross Assets	1,40,000
Less Liabilities	17,500	*Less* Liabilities	50,000
	1,40,000	Rs.	90,000
Add Goodwill	20,000		
Rs.	1,60,000		

The same result may be arrived at as below:—

A. B C. Co Ltd	Rs.	X. Y Z. Co Ltd,	Rs
Share Capital	1 00 000	Share Capital	1,20,000
Reserve Fund	22,000	*Less* Liabilities	30 000
Dividend Reserve	15 000		
Profit and Loss Appropriation Account	3 000	Rs	90 000
	1 40 000		
Add Goodwill which is unrecorded	20 000		
Rs	1 60 000		

The proportion of Shares in the Old and New Companies are arrived at thus —

	Old	New		Old		New
A. B C Co Ltd	10 000	16 000	i e	5	to	8
X Y Z Co Ltd	12 000	9 000	i e	4	to	3

The New Company will therefore hand over to the Liquidators of the old Company the following shares in full satisfaction of the purchase consideration to be distributed amongst their respective shareholders in exchange for their former holdings

To A B C Co Ltd. = 16 000 Shares of Rs 10 each fully paid.
„ X Y Z Co Ltd. = 9 000 Shares of Rs 10 each fully paid

BALANCE SHEET OF THE NEW COMPANY

Liabilities	Rs	*Assets*	Rs
Share Capital—		Goodwill	20 000
25 000 Shares of Rs 10 each issued		Land and Buildings	1 15,000
as fully paid	2,50 000	Plant and Machinery	70 000
Sundry Creditors	57 500	Stock	65,000
Bank Overdraft	10 000	Sundry Debtors	45 000
		Cash at Bank	2,500
Rs	3 17,500	Rs	3 17,500

JOURNAL ENTRIES IN THE NEW COMPANY'S BOOKS

		L.F	Rs.	Rs.
Business Purchase Account	Dr		1 60 000	
To the A. B C Co Ltd (Vendors)				1 60 000
(Being the purchase price agreed to be paid to the above Company)				
Goodwill	Dr		20 000	
Land and Buildings	„		60 000	
Plant and Machinery	„		30 000	
Stock	„		40 000	
Debtors	„		25 000	
Cash at Bank	„		2,500	
To Sundry Creditors				17,500
„ Business Purchase Account				1 60 000
(Being the incorporation of the several assets and liabilities taken over from the A. B C. Co, Ltd)				

JOURNAL ENTRIES—*contd.*

	L.F.	Rs.	Rs.
The A. B. C. Co., Ltd. (Vendors) .. .. Dr.		1,60,000	
To Share Capital Account			1,60,000
(Being the issue of 16,000 Shares of Rs. 10 each, fully paid to them in full satisfaction of the purchase price.)			
Business Purchase Account .. .. .. Dr.		90,000	
To the X. Y. Z. Co., Ltd. (Vendors)			90,000
(Being the purchase price agreed to be paid for taking over the Co.)			
Land and Buildings .. .. .. Dr.		55,000	
Plant and Machinery .. .. .. „		40,000	
Stock .. .. „		25,000	
Debtors .. .. „		20,000	
To Creditors			40,000
„ Bank Overdraft			10,000
„ Business Purchase Account			90,000
(Being the several assets and liabilities taken over now brought into record.)			
The X. Y. Z. Co., Ltd. (Vendors) .. .. Dr.		90,000	
To Share Capital Account			90,000
(Being the issue of 9,000 Shares of Rs. 10 each, fully paid in full satisfaction of purchase price as agreed.)			

Q. 407. *Following up the above question, give the entries to close the books of both the Companies and show the Realisation Account and Sundry Shareholders' Account in the books of each of them.*

A.

JOURNAL ENTRIES TO CLOSE THE BOOKS OF A. B. C. CO. LTD.

	L.F.	Rs.	Rs.
Realisation Account .. .. .. Dr.		1,57,500	
To Land and Buildings			60,000
„ Plant and Machinery			30,000
„ Stock			40,000
„ Debtors			25,000
„ Cash at Bank			2,500
(Being the assets sold transferred to Realisation Account at Book values.)			
Sundry Creditors .. .. Dr.		17,500	
To Realisation Account			17,500
(Being the transfer of Liabilities.)			
The New Company Ltd. .. .. .. Dr.		1,60,000	
To Realisation Account			1,60,000
(Being the purchase-consideration agreed to be payable by the new company.)			
Realisation Account .. .. .. Dr.		20,000	
To Sundry Shareholders' Account			20,000
(Being the transfer of the profit on realisation.)			

JOURNAL ENTRIES—*contd*

	L.F	Rs	Rs.
Share Capital Account .. .. .. Dr. Reserve Fund .. .. .. „ Dividend Reserve . .. „ Profit and Loss Appropriation Account .. .. „ To Sundry Shareholders' Account (Being the transfer of undistributed profits and Share Capital to Shareholders' Account.)		1,00,000 22,000 15 000 3,000	 1,40,000
Shares in the New Company, Ltd .. . Dr. To the New Company, Ltd (Being the receipt of 16,000 Shares of Rs. 10 each, fully paid in the New Company at the rate of 8 Shares for every 5 Shares in the Old Company, in full payment of the purchase-consideration.)		1,60,000	 1,60,000
Sundry Shareholders' Account . . Dr. To Shares in the New Co. Ltd. (Being the distribution of the shares amongst the shareholders)		1,60,000	 1,60,000

IN THE BOOKS OF THE A B C CO LTD
REALISATION ACCOUNT

	Rs		Rs
To Land and Buildings .	60,000	By Sundry Creditors .	17,500
„ Plant and Machinery	30,000	„ New Co, Ltd. . .	1,60,000
„ Stock .	40,000		
„ Debtors	25,000		
„ Cash at Bank .	2,500		
„ Sundry Shareholders' Account	20,000		
Rs.	1,77,500	Rs	1,77,500

SUNDRY SHAREHOLDERS' ACCOUNT

	Rs		Rs.
To Shares in the New Company	1,60,000	By Realisation Account—profit transferred . .	20,000
		„ Reserve Fund	22,000
		„ Dividend Reserve .. .	15,000
		„ Profit and Loss Appropriation Account .. .	3,000
		„ Share Capital .. .	1 00 000
Rs.	1,60 000	Rs	1,60,000

JOURNAL ENTRIES TO CLOSE THE BOOKS OF THE X. Y. Z. CO. LTD.

	L.F.	Rs.	Rs.
Realisation Account .. .. .. Dr.		1,40,000	
To Land and Buildings			55,000
„ Plant and Machinery			40,000
„ Stock			25,000
„ Debtors			20,000
(Being the transfer of the assets sold to Realisation Account at book values.)			
Sundry Creditors .. .. .. Dr.		40,000	
Bank Overdraft .. .. .. „		10,000	
To Realisation Account			50,000
(Being the transfer of the Liabilities to the latter Account.)			
The New Company Ltd. .. .. .. Dr.		90,000	
To Realisation Account			90,000
(Being the purchase-price as agreed to be paid to the New Company.)			
Shareholders' Account .. .. .. Dr.		30,000	
To Profit and Loss Account			30,000
(Being the transfer of debit balance on Profit and Loss Account.)			
Share Capital Account .. .. .. Dr.		1,20,000	
To Sundry Shareholders' Account			1,20,000
(Being the transfer of Share Capital Account.)			
Shares in the New Company Ltd. .. .. Dr.		90,000	
To the New Company, Ltd. Account			90,000
(Being the receipt of 9,000 shares of Rs. 10 each, fully-paid in full satisfaction of purchase-price.)			
Sundry Shareholders' Account .. .. .. Dr.		90,000	
To Shares in the New Company, Ltd.			90,000
(Being the distribution of the new Company Shares amongst the shareholders.)			

IN THE BOOKS OF THE X. Y. Z. CO. LTD.

REALISATION ACCOUNT

	Rs.		Rs.
To Land and Buildings ..	55,000	By Sundry Creditors ..	40,000
„ Plant and Machinery ..	40,000	„ Bank Overdraft ..	10,000
„ Stock ..	25,000	„ The New Co., Ltd. ..	90,000
„ Debtors ..	20,000		
Rs.	1,40,000	Rs.	1,40,000

SUNDRY SHAREHOLDERS' ACCOUNT

	Rs.		Rs.
To Profit and Loss Account ..	30,000	By Share Capital Account ..	1,20,000
„ Share in the New Company, Ltd. ..	90,000		
Rs.	1,20,000	Rs.	1,20,000

Q. 408. *The following is the Balance Sheet of the P. Co. Ltd., which is absorbed by the Q. Co Ltd., on the undernoted terms:—*

(a) The "A" Debenture-holders to be repaid at a premium of 10%.

(b) The "B" Debentures to be discharged at a premium of 5% by the issue of 7% First Mortgage Debentures in the Q Co, Ltd.

(c) The other liabilities with the exception of workmen's Deposits are also to be taken over

(d) The P Co, Ltd to pay off their workmen's deposits

(e) The Shareholders are to be paid Rs 3 in cash per share, and three fully-paid shares of Rs 5 each valued at the market price of Rs 7 50 P per share in exchange for every two shares in the P Co, Ltd

BALANCE SHEET OF THE P CO LTD

Liabilities	Rs	*Property and Assets*	Rs
Share Capital—		Goodwill ..	1,50,000
20 000 Shares of Rs 10 each, fully paid	2,00,000	Patent Rights ..	30,000
Debentures—		Land and Buildings .	70,000
7% "A" Debentures	60 000	Plant and Machinery ..	85,000
7½% 'B" Debentures	80 000	Stock ..	65,000
Debenture Redemption Fund	25,000	Sundry Debtors .	22,000
Reserve Fund	45,000	Debenture Redemption Investments ..	25,000
Employees' Savings Bank Deposits with Interest	9 000	Cash at Bank ..	27,000
Sundry Creditors	30,000		
Profit and Loss Appropriation Account—Balance	25 000		
Rs.	4,74,000	Rs.	4,74,000

Show how the purchase-consideration would be arrived at, and give the entries relating to the purchase in the books of the Q Co, Ltd, assuming that the Patent Rights and Land and Buildings are valued by them at Rs 45,000 and Rs 1,00,000 respectively, and Employees' Savings Bank Deposits with Interest paid by P. Co, Ltd

A. The purchase-price will be arrived at as under —

	Rs
Cash Payment to "A" Debenture-holders at a Premium of 10%	66,000
New First Mortgage Debentures to "B" Debenture-holders in exchange for their original holding plus 5% Premium .. .	84,000
Cash on 20,000 Shares at Rs 3 per share	60,000
30,000 Fully-paid Shares of Rs 5 each valued at Rs 7 50 P each in exchange for 20,000 shares in the Old Company	2,25,000
Rs	4,35,000

JOURNAL ENTRIES IN THE BOOKS OF Q. CO. LTD.

		L.F.	Rs.	Rs.
Business Purchase Account	Dr.		4,35,000	
To The P. Co., Ltd. (Vendors)				4,35,000
(Being the taking over of the P. Co., Ltd. and the Purchase-price in respect thereof.)				
Patent Rights	Dr.		45,000	
Land and Buildings	„		1,00,000	
Plant and Machinery	„		85,000	
Stock	„		65,000	
Sundry Debtors	„		22,000	
Investments	„		25,000	
Cash at Bank	„		18,000	
Goodwill	„		1,05,000	
To Sundry Creditors				30,000
„ Business Purchase Account				4,35,000
(Being the assimilation of the several assets and liabilities taken over.)				
The P. Co., Ltd. (Vendors)	Dr.		4,35,000	
To Bank				1,26,000
„ First Mortgage Debentures				84,000
„ Share Capital Account				1,50,000
„ Share Premium Account				75,000
(Being the issue of Cash, Shares and Debentures in satisfaction of the purchase-consideration.)				

Q. 409. *Give the entries and accounts necessary to close the books of the P. Company Ltd.*

A. JOURNAL ENTRIES

		L.F.	Rs.	Rs.
Realisation Account	Dr.		4,65,000	
To Goodwill				1,50,000
„ Patent Rights				30,000
„ Land and Buildings				70,000
„ Plant and Machinery				85,000
„ Stock				65,000
„ Sundry Debtors				22,000
„ Investments				25,000
„ Cash at Bank				18,000
(Being the transfer of the assets taken over by the Q. Co., Ltd. to the Realisation Account at book values.)				
Sundry Creditors	Dr.		30,000	
To Realisation Account				30,000
(Being the transfer of the liabilities taken over.)				
The Q. Co. Ltd., ...	Dr.		4,35,000	
To Realisation Account				4,35,000
(Being the sale price of the Company recoverable from the Q. Co., Ltd.)				
Realisation Account	Dr.		10,000	
To "A" Debentures Account				6,000
„ "B" Debentures Account				4,000
(Being the amount of premium to debenture-holders included in the purchase consideration now transferred.)				

JOURNAL ENTRIES—*contd*

		L F	Rs	Rs
Sundry Shareholders Account To Realisation Account (Being the loss on realisation transferred)	Dr		10 000	10 000
Share Capital Account Reserve Fund Profit and Loss Appropriation Account Debentures Redemption Fund To Sundry Shareholders Account (Being the transfer of the Share Capital and undistributed profits to the latter account)	Dr " "		2 00 000 45 000 25 000 25 000	2 95 000
Bank Account First Mortgage Debentures Share in Q Co Ltd To Q Co Ltd Account (Being the purchase price received from Q Co Ltd)	Dr "		1 26 000 84 000 2,25 000	4,35 000
A Debentures To Bank *(Being the Cash payment to A Debenture-holders at a premium of 10%)*	Dr		66 000	66 000
B Debentures To First Mortgage Debentures (Being the discharge of B Debentures at a premium of 5% by exchange of First Mortgage Debentures)	Dr		84 000	84 000
Employees Savings Bank Deposits To Bank (Being the refund of Employees Deposits)	Dr		9 000	9 000
Sundry Shareholders Account To Bank " Shares in Q Co Ltd (Being the payment in Cash by issue of new shares to the shareholders in return for their holding in this Company)	Dr		2 85 000	 60 000 2,25 000

REALISATION ACCOUNT

	Rs		Rs
To Goodwill	1 50 000	By Sundry Creditors	30 000
Patent Rights	30 000	Q Co Ltd	4 35 000
" Land and Buildings	70 000	" Sundry Shareholders Account	10 000
Plant and Machinery	85 000		
Stock	65 000		
Sundry Debtors	22 000		
" Investments	25 000		
Cash at Bank	18 000		
A Debentures	6 000		
B Debentures	4 000		
Rs	4 75 000	Rs	4 75 000

"A" DEBENTURES ACCOUNT

	Rs.		Rs.
To Bank ..	66,000	By Balance ..	60,000
		„ Realisation Account ..	6,000
Rs.	66,000	Rs.	66,000

"B" DEBENTURES ACCOUNT

	Rs.		Rs.
To First Mortgage Debentures ..	84,000	By Balance ..	80,000
		„ Realisation Account ..	4,000
Rs.	84,000	Rs.	84,000

SUNDRY SHAREHOLDERS' ACCOUNT

	Rs.		Rs.
To Realisation Account ..	10,000	By Share Capital ..	2,00,000
„ Bank ..	60,000	„ Reserve Fund ..	45,000
„ Shares in Q. Co., Ltd. ..	2,25,000	„ Profit and Loss Appropriation Account ..	25,000
		„ Debenture Redemption Fund .	25,000
Rs.	2,95,000	Rs.	2,95,000

BANK ACCOUNT

	Rs.		Rs.
To Balance ..	27,000	By Realisation Account ..	18,000
„ Q. Co., Ltd. ..	1,26,000	„ "A" Debentures ..	66,000
		„ Employees Deposits ..	9,000
		„ Sundry Shareholders ..	60,000
Rs.	1,53,000	Rs.	1,53,000

Q. 410. *The Creditors and the Shareholders having agreed upon a scheme of reconstruction, the Texas Co. Ltd., went into voluntary liquidation. The Balance Sheet at the date of reconstruction stood as under:—*

BALANCE SHEET OF THE TEXAS CO. LTD.

Capital and Liabilities	Rs.	*Property and Assets*	Rs.
Share Capital— 25,000 Share of Rs. 10 each, fully paid ..	2,50,000	Goodwill ..	40,000
		Factory Building ..	95,000
		Plant ..	1,05,000
8% Debentures ..	1,00,000	Stock ..	50,000
Trade Creditors ..	40,000	Debtors ..	60,000
Reserve for Doubtful Debts ..	7,000	Cash at Bank ..	2,000
Depreciation Fund ..	20,000	Profit and Loss Account—Debit Balance ..	65,000
Rs.	4,17,000	Rs.	4,17,000

The Scheme of Reconstruction provided as under—

(1) That a New Company be formed with a Share Capital of Rs 5,00,000 in 50,000 Shares of Rs 10/- each to take over from the above Company, Stock and Debtors at 20% less than the book value and Factory Building and Plant at Rs 77,000 and Rs 1,00,000 respectively

(2) The Debenture holders were to be satisfied by the issue of 9% Mortgage Debentures of Rs 1,05,000 in the New Company in exchange for old Debentures

(3) The Trade Creditors agreed to receive Rs 35 000 from the New Company in full satisfaction of their claims.

(4) The Shareholders agreed to receive 25,000 shares of Rs 10 each credited with Rs 5 per share paid up, with a call of Rs 2 50 P per share to be made forthwith

(5) The Bank Balance was utilised in payment of Reconstruction cost

Give the entries and the accounts closing the books of the Texas Co, Ltd. and the opening entries in the books of the New Company, assuming that the call made on the shareholders was duly received.

A.

ENTRIES TO CLOSE THE BOOKS OF THE TEXAS CO LTD

		L F	Rs	Rs
Realisation Account To Goodwill Factory Building „ Plant „ Stock „ Debtors *(Being the entry to close the asset accounts)*	Dr		3,50,000	 40 000 95 000 1 05 000 50 000 60 000
The New Co, Ltd To Realisation Account (Being the consideration received from the New Co, Ltd. in view of the Scheme of Reconstruction as sanctioned by the Creditors and the Shareholders)	Dr		2 65 000	 2,65 000
Realisation Account To 8% Deb-ntures Account (Being the premium agreed to be allowed to the Debenture holders.)	Dr		5,000	 5 000
Trade Creditors To Realisation Account (Being the gain arising from the Creditors having agreed to accept Rs 35,000 in li-u of Rs 40 000)	Dr		5,000	 5,000
Realisation Account To Bank (Being the cost of reconstruction paid)	Dr		2 000	 2,000
Sundry Shareholders' Account To Realisation Account (Being the loss on realisation transferred.)	Dr		87 000	 87 000

JOURNAL ENTRIES—*contd.*

		L.F.	Rs.	Rs.
Sundry Shareholders' Account .. .. Dr.			65,000	
To Profit and Loss Account				65,000
(Being the debit balance on Profit and Loss Account transferred.)				
Share Capital Account .. .. Dr.			2,50,000	
Reserve for Doubtful Debts Account .. .. "			7,000	
Depreciation Fund Account .. .. "			20,000	
To Sundry Shareholders' Account				2,77,000
(Being the credit balance on these accounts transferred.)				
Bank Account .. .. .. Dr.			35,000	
9% Mortgage Debentures .. .. .. "			1,05,000	
Shares in the New Co., Ltd. .. .. .. "			1,25,000	
To the New Co., Ltd.				2,65,000
(Being the consideration received from the New Co., Ltd.)				
8% Debentures Account .. .. .. Dr.			1,05,000	
To 9% Mortgage Debentures				1,05,000
(Being the issue of Debentures in the New Co., Ltd. in exchange for the former holding at a premium of 5% as per the Scheme of Reconstruction.)				
Trade Creditors .. .. .. Dr.			35,000	
To Bank				35,000
(Being the payment to Trade Creditors in full satisfaction of their claims, as agreed in the Scheme of Reconstruction.)				
Sundry Shareholders' Account .. .. .. Dr.			1,25,000	
To Shares in the New Co., Ltd.				1,25,000
(Being the issue of 25,000 Shares of Rs. 10 each taken as Rs. 5 per share paid up in exchange for the former holding, as per the Scheme of Reconstruction.)				

REALISATION ACCOUNT

	Rs.		Rs.
To Sundry Assets ..	3,50,000	By the New Co., Ltd. ..	2,65,000
" 8% Debentures ..	5,000	" Trade Creditors ..	5,000
" Bank ..	2,000	" Sundry Shareholders' Account —Loss transferred ..	87,000
Rs.	3,57,000	Rs.	3,57,000

SUNDRY SHAREHOLDERS' ACCOUNT

	Rs.		Rs.
To Realisation Account ..	87,000	By Sundries ..	2,77,000
" Profit and Loss Account ..	65,000		
" Shares in New Co., Ltd. ..	1,25,000		
Rs.	2,77,000	Rs.	2,77,000

BANK ACCOUNT

	Rs		Rs
To Balance b/d	2 000	By Realisation Account—	
New Co Ltd	35 000	Cost of Reconstruction	2 000
		Trade Creditors	35 000
Rs	37 000	Rs	37 000

8% DEBENTURES ACCOUNT

	Rs		Rs
To 9% Mortgage Debentures	1 05 000	By Balance b/d	1 00 000
		Realisation Account	5 000
Rs	1 05 000	Rs	1 05 000

TRADE CREDITORS

	Rs		Rs
To Realisation Account—Transfer	5 000	By Balance b/d	40 000
Bank	35 000		
Rs	40 000	Rs	40 000

JOURNAL ENTRIES TO OPEN THE BOOKS OF THE NEW COMPANY LTD

		L F	Rs	Rs
Factory Building	Dr		77 000	
Plant	"		1 00 000	
Stock			40 000	
Debtors			48 000	
To the Texas Co Ltd				2 65 000
(Being the taking over of the assets at an agreed valuation)				
The Texas Co Ltd	Dr		2 65 000	
To Bank				35,000
9% Mortgage Debentures				1 05 000
Share Capital Account				1 25 000
(Being the Cash Debentures and Shares issued to the liquidator of the Texas Co Ltd to be distributed as per the Scheme of Reconstruction)				
Share First Call Account	Dr		62 500	
To Share Capital Account				62 500
(Being the First Call of Rs 2.50 P per Share on 25 000 Shares)				
Bank Account	Dr		62 500	
To Share First Call Account				62,500
(Being the amount of First Call duly received)				

BALANCE SHEET OF THE NEW CO. LTD.

Capital and Liabilities	Rs.	*Property and Assets*	Rs.
Authorised Capital— 50,000 Shares of Rs. 10 each ..	5,00,000	Factory Building	77,000
		Plant	1,00,000
Issued and Subscribed Capital— 25,000 Shares of Rs. 10 each, Rs. 7.50 P. per Share paid up ..	1,87,500	Stock	40,000
		Debtors	48,000
9% Mortgage Debentures ..	1,05,000	Cash at Bank	27,500
Rs.	2,92,500	Rs.	2,92,500

CHAPTER X

SELF-BALANCING OF LEDGERS

Q. 411. *What do you understand by the term "Self-Balancing of Ledgers" and what is the object of this system?*

A. The complete agreement of a Trial Balance prepared from the books of accounts of a business is of very great importance Even though the Trial Balance might disagree by a small amount, it is not desirable to allow such a difference to pass, for there is every possibility of large discrepancies being concealed behind this apparent small difference Where a business is a small one and all the accounts are accommodated in one Ledger, it will not be a difficult matter to run through the whole of the transactions in the event of a disagreement of the Trial Balance But in a large business where several Ledgers would be in use, it would entail an enormous amount of time and labour to locate the error or errors in the event of the Trial Balance disagreeing It is for the purpose of obviating this inconvenience and annoyance at the time of periodical balancing that the system of Self-balancing of Ledgers is devised Under this system, it is possible to construct a complete Trial Balance from each Ledger separately without any regard to the accounts in the other Ledgers As a result of each Ledger being thus balanced separately, the error or errors would be easily localised, for in case of disagreement of the Trial Balance of any Ledger, only the entries recorded in that particular Ledger will have to be re-checked, and it would not be necessary to go over the transactions entered in those Ledgers whose Trial Balances agree

Q. 412. *Give a general outline of the system of Self-Balancing of Ledgers, assuming there are three Ledgers kept in a business, viz (1) a Bought Ledger, (2) a Sold Ledger, (3) a General Ledger*

A. At the end of each Personal or Trade Ledger, an extra Adjustment Account will be opened in the name of the General Ledger. Thus, in the Bought Ledger as also in the Sold Ledger an account called "General Ledger Adjustment Account" will be opened Similarly, an extra Adjustment Account will have to be opened in the General Ledger for each of the Personal Ledgers Thus, in the General Ledger there will be two extra adjustment accounts, one called "Bought Ledger Adjustment Account" and the other "Sold Ledger Adjustment Account" To the Adjustment Accounts in each Ledger will be posted contra entries of those that are already recorded in the same Ledger In order to save unnecessary clerical labour, these contra entries will be made in monthly or other periodical totals Since every entry in the Ledger has its contra posting (in totals) on the Adjustment Account which is opened at the end of each Ledger, the Double Entry of every transaction is recorded in the same Ledger Evidently, therefore, a separate Trial Balance can be extracted from each Ledger in which the balance on the

Adjustment Account opened at the end of the Ledger should also be included, and such a Trial Balance must agree, if the transactions are recorded correctly. If the Trial Balance of any Ledger disagrees, it will be necessary to re-check only those transactions which are recorded in that particular Ledger. The search for errors is thus brought within a very narrow area by eliminating checking of such transactions as have been recorded in those Ledgers whose Trial Balances agree.

Q. 413. *In a business where a system of Self-balancing of Ledgers is adopted, what principles should be followed in the classification of Ledger Accounts and the rulings of the various Subsidiary Books?*

A. For a proper working of the Self-Balancing System, the classification of Ledger Accounts must receive most careful attention. Thus, the accounts of all **Customers** only must be accommodated in one or more Ledgers. Similarly, the accounts of the **Trade Creditors**, i.e., suppliers of goods should be arranged in quite another Ledger. All the remaining Accounts should then be accommodated in yet another Ledger. The Ledgers including the accounts of customers are variously known as either Customers' Ledgers, Debtors' Ledgers, Sold Ledgers or Sales Ledgers. Those including the accounts of Trade Creditors are styled either Creditors' Ledgers, Suppliers' Ledgers, Bought Ledgers or Purchases Ledgers. The Ledger wherein are found all the remaining accounts is variously styled as General Ledger, Nominal Ledger or Impersonal Ledger. For the purpose of self-balancing each Ledger, the postings to the different Adjustment Accounts in the various Ledgers are made in monthly or other periodical totals and these totals are to be taken from the various Subsidiary Books. It is essential, therefore, to rule the Subsidiary Books in such a way that the periodical totals of the transactions appearing in each Ledger can be obtained from the particular Subsidiary Books wherein those transactions are primarily recorded. Thus the Sales Book, the Returns Inwards Book and the Bills Receivable Books will be ruled to have an extra column for each of the Debtors' or Sold Ledgers. Similarly, the Purchases Book, the Returns Outwards Book and the Bills Payable Book should be ruled to have extra columns for each of the Creditors' or Bought Ledgers. The Cash Book receipts side as well as the payments side and also the Journal will be ruled with extra columns for each of the Trade Ledgers. The reason why each side of Cash Book should have a column for each Trade Ledger is that sometimes payments may have to be made to some customers by way of refund of over-payments made by them, and similarly, some creditors may return to us over-payments made to them. Although such transactions are not numerous, a special analysis will have to be prepared for such transactions, if the system of sectional balancing is to function properly in the absence of such columns.

Q. 414. *In a business where the system of Self-balancing of Ledgers is adopted, there are two Bought Ledgers, viz. (1) Inland*

and (2) Foreign, three Sold Ledgers, viz (1) Local, (2) Provincial, and (3) Foreign, and one General Ledger Give pro-forma rulings of the Cash Book, Sales Book, Purchases Book and the Journal suitable for that business, giving a few imaginary entries in each book

A

SALES BOOK

Date	Particulars	L.F	Total	Local	Provincial	Foreign
1967			Rs	Rs	Rs	Rs
Jan. 11	Abraham & Co (Calcutta)		2 700		2 700	
" 17	Premchand & Sons (Bombay)		3,500	3,500		
" 25	Scuzenberg & Co (Germany)		5,900			5,900

PURCHASES BOOK

Date	Particulars	L F	Total	Inland	Foreign
1967			Rs	Rs	Rs
Jan. 7	Puranchand & Co (Lahore)		2,900	2,900	
" 15	Khairabadi & Co (Persia)		5 400		5 400
" 21	*Chankeishak & Sons (China)*		*3 800*		*3 800*

[*Continued on pages* 431 & 432

Q 415 *Explain in detail how you would self-balance the Bought Ledger*

A An extra account called the 'General Ledger Adjustment Account" will be opened at the end of the Bought Ledger, and a Bought Ledger Adjustment Account' will be opened in the General Ledger

Credit Purchases.—As usual, the various Personal Accounts in the Bought Ledger would be credited individually and the Purchases Account in the General Ledger would get the periodical debit in total from the Invoice Book The Bought Ledger thus receives all the credits and the General Ledger gets the debits The entries to the Adjustment Accounts for the purpose of self balancing the postings from the Purchases Book would, therefore, be the reverse of the original entries With the periodical totals of the Purchase Book, the General Ledger Adjustment Account in the Bought Ledger would be debited and the Bought Ledger Adjustment Account in the General Ledger credited

Cash Paid to Creditors—When the payments are made the entries would be to debit the accounts of the various parties in the Bought Ledger, and to credit Cash, Bank or Discount The latter accounts relate to the General Ledger It is the Bought Ledger therefore that gets all the debits

[*Continued on page 433*

CASH BOOK (Receipts Side)

Date	Particulars	L.F.	Discount	Cash	Bank	Sold Ledgers			Bought Ledgers	
						Local	Provincial	Foreign	Inland	Foreign
1967			Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Jan. 1	To Balance			325	5,900					
„ 15	„ Abraham & Co. (Calcutta)—									
	Cash received and discount allowed		50		1,450		1,500			
„ 29	„ Premchand & Sons (Bombay)—									
	Cash received and discount allowed		115		2,385	2,500				
Feb. 1	„ Cash Sales									
„ 8	„ Ramrao & Sons (Madras)—									
	Cheque received in full settlement				750		750			

CASH BOOK (Payments Side)

Date	Particulars	L.F.	Discount	Cash	Bank	Bought Ledgers		Sold Ledgers		
						Inland	Foreign	Local	Provincial	Foreign
1967			Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Jan. 3	By Rent (for December)				300					
„ 9	„ Puranchand & Co. (Lahore)—									
	Payment Account *less* discount		25		975		1,000			
„ 11	„ Purchases Account—									
	Cash Purchases paid by cheque				550					
„ 19	„ Khairabadi & Co. (Persia)—Bank Draft sent on A/c.—									
	Less discount received		185		3,515		3,700			
„ 20	„ Nissim & Co. (Calcutta)—								75	
	Refund of overpayment made by them in last year ..				75					

JOURNAL

Date	Particulars	L.F	Dr	Cr	Sold Ledgers						Bought Ledgers			
					Local		Provincial		Foreign		Inland		Foreign	
					Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr
1967			Rs	Rs	Rs	Rs	Rs	Rs	Rs	Rs	Rs	Rs	Rs	Rs
Jan 12	Puranchand & Co (Lahore) Dr To Allowance Account (Being allowance for damaged goods received from them as per their letter dated———)		250	250									250	
„ 15	Office Furniture Account Dr To Lalaram & Co (Bombay) (Being Furniture brought from the latter)		1 275	1,275										
„ 19	Returns Inwards Accounts Dr To Abraham & Co (Calcutta) (Being part of goods invoiced on 11 1-67 returned by them as not according to sample)		700	700				700						
„ 30	Puranchand & Co (Lahore) Dr To Premchand & Sons (Bombay) (Being transfer of the balance on the latter account to the former as per letter of Puranchand & Co dated———)		1 000	1,000								1 000		

Continued from page 430]
and the General Ledger the credits in regard to payments to Creditors. To self-balance these two Ledgers, it would be necessary to make a reverse entry. With the total of the Cash paid to creditors and discount received from them, debit the Bought Ledger Adjustment Account in the General Ledger, and credit the General Ledger Adjustment Account in the Bought Ledger. To obtain the periodical amount of total payments made to creditors and the discount allowed by them, there would be kept a separate column headed Bought Ledger on the payments side of the Cash Book. The total of the cash paid and discount received would be entered in this column each time that a payment is made to a creditor, besides being recorded in the Discount and Cash or Bank columns. The monthly or other periodical totals of this column will represent the total payments made to creditors during the period.

Bills Accepted.—In regard to the Bills drawn by the creditors and accepted by the trader, the postings from the Bills Payable Book would be to debit the individual accounts of the creditors in the Bought Ledger and credit the Bills Payable Account which appears in the General Ledger. It is the Bought Ledger, therefore, that gets the debits and the General Ledger that gets credits in regard to acceptances granted. To self-balance the two Ledgers, a reverse entry will be made with the periodical total of the Bills Payable Book, debiting the Bought Ledger Adjustment Account in the General Ledger, and crediting the General Ledger Adjustment Account in the Bought Ledger.

Purchase Returns.—On the goods being returned to the creditors, the individual accounts of the parties in the Bought Ledger are debited and the Returns Outwards Account in the General Ledger is credited with the periodical totals of the Returns Outwards Book. A reverse entry with the periodical totals can now be made debiting the Bought Ledger Adjustment Account in the General Ledger, and crediting the General Ledger Adjustment Account in the Bought Ledger, to self-balance the two Ledgers.

Trial Balance of the Bought Ledger.—After completing the above-mentioned adjusting entries, it will be noticed that every debit or credit in the Bought Ledger has a corresponding credit or debit in the same Ledger, due to the periodical totals of these transactions having been posted on the contra sides of the adjustment accounts opened therein. It is therefore possible to extract an independent Trial Balance of that Ledger including the balance of the General Ledger Adjustment Account. Most of the individual balances will be on the credit, but the balance of General Ledger Adjustment Account will naturally be on the debit, and will equal the total of the credit balances.

Note:—It is important to note that as a result of the entries passed to self-balance the Bought Ledger, the General Ledger has also become self-balanced, so far as the postings of transactions with the Trade Creditors are concerned.

regard to these transactions, a reverse entry must be made debiting the General Ledger Adjustment Account in the Sold Ledger and crediting the Sold Ledger Adjustment Account in the General Ledger, with the periodical totals of the Returns Inwards Book.

Bad Debts.—When a Bad Debt is written off, the account of the customer who fails is credited in the Sold Ledger and the Bad Debts Account is debited in the General Ledger. All such Bad Debts written off monthly should be ascertained from the Ledger and a reverse entry should be made with this amount debiting the General Ledger Adjustment Account in the Sold Ledger and crediting the Sold Ledger Adjustment Account in the General Ledger.

Sold Ledger Trial Balance.—After making the abovementioned adjusting entries, it will now be possible to extract a separate Trial Balance of the Sold Ledger, since the Double Entry of every transaction is completed therein. The balances on the Personal Accounts will generally be on the debit, but the balance on General Ledger Adjustment Account will be on the credit of counter-balance these.

Note:—It may here be pointed out that as a result of the self-balancing of the Sold Ledger having been brought about by means of extra entries the contra effect of which have gone in the General Ledger, the latter Ledger has also become self-balanced, so far as the transactions with the customers are concerned.

Q. 417. *Assuming that the Bought and Sold Ledgers have been self-balanced as a result of the extra entries on the Adjustment Accounts, as described in the previous two questions, explain how this will have helped towards the self-balancing of the General Ledger.*

A. After the Bought and Sold Ledgers are balanced sectionally, no further adjusting entries will be necessary to self-balance the General Ledger, since every time a debit or credit in respect of a self-balancing entry was made in the Bought or Sold Ledger, the contra credit or debit was simultaneously made in the Bought Ledger Adjustment Account or the Sold Ledger Adjustment Account which was opened in the General Ledger. The Bought Ledger Adjustment Account in the General Ledger thus represents a summarised Creditors' Account and the Sold Ledger Adjustment Account represents a summarised Debtors' Account. It is possible therefore to extract the Trial Balance of the General Ledger now separately without reference to the balances in the Bought and Sold Ledgers, by including therein the balances of the Bought Ledger Adjustment Account and the Sold Ledger Adjustment Account, which appear at the end of the General Ledger.

Q. 418. *Where a system of self-balancing of Ledgers is adopted, what rules should be observed as regards the arrangement of Ledger Accounts and also as regards transfers from one Trade Ledger to another?*

A. In order to ensure the proper working of the system of Self balancing of Ledgers it is essential to see that the accounts in the Bought Ledger should be those of the Trade Creditors only (i e suppliers of goods on credit) and the Sold Ledger should contain only the accounts of the Trade Customers Thus, if a fixed asset is sold on credit the entry will be made in the Journal and the Account of the party to whom the asset is sold will be opened in the General Ledger, *as that party is not an ordinary Trade Debtor in the sense* of a customer Similarly if Furniture is bought on credit, the transaction will be entered in the Journal and the dealers' account will be opened in the General Ledger inasmuch as he is not a Trade Creditor

It may happen that goods are bought from and sold to the same party, in which case, it will be necessary to open two accounts of that party, one in the Sold Ledger and another in the Bought Ledger The account in the Sold Ledger should contain the transactions relating to sales and the account in the Bought Ledger should record transactions relating to purchases At the time of settlement with the party, it would be necessary to transfer the balance of one account to another account and the transfer should be made through the Journal.

For every such transfer from one Trade Ledger to another Trade Ledger, it will be necessary to make two extra adjustment entries in order to self balance the Ledgers For instance if a debit balance of Rs 100 on A s Account in the Sold Ledger in transferred to his account in the Bought Ledger, the two adjustment entries would be as follows —

JOURNAL ENTRIES

		L.F	Rs.	Rs
General Ledger Adjustment Account (in the Sold Ledger)	Dr		100	
To Sold Ledger Adjustment Account (in the General Ledger)				100
Bought Ledger Adjustment Account (in the General Ledger)	Dr		100	
To General Ledger Adjustment Account (in the Bought Ledger)				100

These two entries will serve not only to self balance the Bought and Sold Ledgers but will also adjust the Bought and Sold Ledger Adjustment Accounts in the General Ledger The important point to note is that these accounts reflect in a summarised form the total position of the Creditors and the Debtors as detailed in the Creditors' and the Debtors' Ledgers respectively It follows therefore that whenever any self balancing entry is made in any of the Personal Ledgers the contra posting thereof must be made on the Adjustment Account representing that Ledger in the General Ledger

Q 419 *In a business three Ledgers are kept in use, viz* (1) *a Debtors' Ledger,* (2) *a Creditors' Ledger and* (3) *a General Ledger,*

JOURNAL ENTRIES—*contd.*

	L.F.	Rs.	Rs.
General Ledger Adjustment Account .. .. Dr.	D.L.	2,195	
To Debtors' Ledger Adjustment Account	G.L.		2,195
(Returns Inwards as per the Returns Inwards Book.)			
General Ledger Adjustment Account .. .. Dr.	D.L.	680	
To Debtors' Ledger Adjustment Account	G.L.		680
(Allowances made to Debtors.)			
Debtors' Ledger Adjustment Account .. .. Dr.	D.L.	940	
To General Ledger Adjustment Account	G.L.		940
(Bills Receivable returned dishonoured.)			
General Ledger Adjustment Account .. .. Dr.	D.L.	1,125	
To Debtors' Ledger Adjustment Account	G.L.		1,125
(Bad Debts written off during the year.)			

To self-Balance the Creditors' Ledgers:—

JOURNAL ENTRIES

	L.F.	Rs.	Rs.
General Ledger Adjustment Account .. .. Dr.	C.L.	11,250	
To Creditors' Ledger Adjustment Account	G.L.		11,250
(Total credit purchases as per Invoice Book.)			
Creditors' Ledger Adjustment Account .. .. Dr.	G.L.	25,500	
To General Ledger Adjustment Account	C.L.		25,500
(Cash paid to and discount allowed by creditors as per special column in the Cash Book.)			
Creditors' Ledger Adjustment Account .. .. Dr.	G.L.	3,750	
To General Ledger Adjustment Account	C.L.		3,750
(Bills Accepted as per Bills Payable Book.)			
Creditors' Ledger Adjustment Account .. .. Dr.	G.L.	1,500	
To General Ledger Adjustment Account	C.L.		1,500
(Returns Outwards as per Returns Outwards Book.)			
Creditors' Ledger Adjustment Account .. .. Dr.	G.L.	375	
To General Ledger Adjustment Account	C.L.		375
(Allowances made by creditors during the year.)			

Q. 420. *What are Total Debtors' Account and Total Creditors' Account? State the method of their construction.*

A. Where the system of self-balancing is not introduced in its entirety, but it is desired to balance the Personal Ledgers only, a Total Debtors' Account and a Total Creditors' Account may be constructed to check the arithmetical accuracy of these Ledgers.

TOTAL DEBTORS' ACCOUNT:—

On the debit side of this account the following items will appear:—

1. **Opening Balance** will be the total of the balances on the individual Debtors' Account at the beginning of the period as ascertained from the Debtors' Ledger.

2 **Credit Sales** will be obtained from the Day Book

3 **Bills Receivable** dishonoured can be obtained either from the Bills Receivable Book or from the Journal

On the **credit** side will appear—

1 **Cash received from Debtors** can be obtained either from the special column if any kept in the Cash Book or from an analysis of the Cash Book debit side

2 **Discount allowed** will be the total of the discount column on the debit side of the Cash Book

3 **Returns Inwards** can be obtained from the Returns Inwards Book

4 **Allowances** can be ascertained from the Journal

5 **Bills Received** will be the total of Bills Receivable Book

6 **Bad Debts** can be ascertained from the Bad Debts Account in the General Ledger

Transfers if any made from the Debtors Ledger into any other Personal Ledger or vice versa can be ascertained from the Journal

The debit balance on the Total Debtors Account should tally with the total of the balances on the individual Debtors Accounts on the same date as obtained from the Debtors Ledger

TOTAL CREDITORS ACCOUNT —

On the **credit** side of this account will appear the following items —

1 **Opening Balance** will be the total of balances on the individual Creditors Accounts at the beginning of the period as shown by the Creditors Ledger

2 **Credit Purchases** can be obtained from the Invoice Book.

3 **Acceptances Dishonoured** can be ascertained either from the Bills Payable Book or from the Journal

On the **debit** side will appear —

1 **Cash Paid to Creditors** can be ascertained either from the special column if any kept in the Cash Book credit side or from an analysis of the credit side of the Cash Book

2 **Discount Received** from the creditors will be the total of the Dis count column on the credit side of the Cash Book

3 **Returns Outwards** can be obtained from the Returns Outwards Book

4 **Bills accepted** can be ascertained from the Bills Payable Book

Transfers to and from the Creditors Ledger into any other Personal Ledger can be ascertained from the Journal

The credit balance on the Total Creditors' Account should tally with the total of balances on the individual Creditors' Accounts extracted on the same date from the Creditors' Ledger.

The following are pro forma accounts of Total Debtors and Total Creditors :—

TOTAL DEBTORS' ACCOUNT

	Rs.		Rs.
To Balance at the beginning of the period ..	....	By Cash received—from the special column on the debit side of the Cash Book or from an analysis of the Cash Book ..	....
„ Sales—from Day Book ..	....	„ Discount allowed—as per discount column on the debit side of the Cash Book ..	....
„ *Bills dishonoured—as per Journal* or Bills Receivable Book ..	....	„ Bills Receivable—as per Bills Receivable Book ..	....
„ Transfers—as per Journal ..	....	„ Returns—as per Returns Inwards Book ..	....
		„ Bad Debts—as per Bad Debts Account ..	....
		„ Transfers—as per Journal ..	....
		„ Balance at the close of the period, c/d. ..	....
Rs.	....	Rs.	....
To Balance b/d. ..	....		

TOTAL CREDITORS' ACCOUNT

	Rs.		Rs.
To Cash paid—as per special column or analysis of the Cash Book ..	....	By Balance at the beginning of the period ..	....
„ Discount—as per Discount column on the credit side of the Cash Book ..	....	„ Purchases—as per Invoice Book ..	....
„ Bills Payable—as per Bills Payable Book ..	....	„ Bills dishonoured as per Bills Payable Book or Journal ..	....
„ Returns—as per Returns Outwards Book ..	....	„ Transfers—as per Journal ..	....
„ Transfers—as per Journal ..	....		
„ Balance at the end of the period, c/d. ..	....		
Rs.	..	Rs.	....
		By Balance b/d. ..	....

CHAPTER XI

DEPARTMENTAL ACCOUNTS AND TABULAR OR COLUMNAR BOOK-KEEPING

Q. 421. *In a business, which is divided into several Departments, it is desired to ascertain the net results of each department separately Explain in detail the system of account-keeping to achieve this object State also the advantages of such a system*

A. In order to ascertain the working results of each department separately, it is necessary that the book-keeping records of stock, purchases, sales and expenses relating to each Department should be kept distinct, as if each Department were a separate business If the departments are many, it is advisable to keep separate Purchases, Sales and Returns Books for each department Where, however, the departments are few, the Books should be ruled with columns, so that each department is allotted one column The following are the *pro forma* rulings of Departmental Purchases and Sales Books —

DEPARTMENTAL PURCHASES BOOK

Date	Particulars	Inv No	L F	Total	Crockery	Cutlery	Carpets

DEPARTMENTAL SALES BOOK

Date	Particulars	Inv No	L.F	Total	Crockery	Cutlery	Carpets

Ledger Accounts.—In the Ledger, separate accounts of Purchases, Sales, Wages, Stock and Expenses for each department must be kept

Direct Expenses.—The expenses directly attributable to any department such as Salaries, Rent, Insurance, etc , will be charged straight to such depart-

ment. Salaries of the clerks working exclusively in one department will be apportioned in the Salaries Book. Rent will be apportioned according to the floor space occupied by each department, and the insurance premium will be apportioned on the basis of the values of Stocks and Fixtures in each department.

Indirect Expenses.—Expenses not directly applicable to any particular department, e.g. Manager's Salary, Account Staff's and Storekeepers' salaries, and sundry office expenses, will be charged in the first instance to the respective nominal accounts, but at the time of closing the books they will be allocated to the various departments on some equitable basis, e.g. equally, or on the basis of turnover.

It is now possible to prepare a separate Trading and Profit and Loss Account of each department, and thus ascertain the Net Profit or Loss of each separate section of the business.

Advantages of the System.—In a business where there are several departments, the combined result of running all the departments does not supply any information as to the course of the business. It may be that on the whole the business fails to disclose a reasonable margin of profit, but where the separate results of each department are obtained by the method stated above, the proprietors may find that some of the departments are running at a loss and thus wipe off the profits made by others. Having obtained this information, necessary steps may be taken to set right the losing departments by remedying the defects, or the proprietors may cease their activities in that direction and only concentrate their attention to more profitable departments.

Q. 422. *From the following particulars prepare Departmental Trading and Profit & Loss Account and Balance Sheet for the year ended 31st December 1966. The expenses are to be apportioned between the Departments on the basis of their respective turnovers.*

	Rs.
Stock (Raw Material, Finished Goods):—	
A. Department, 1st January 1966	12,000
B. Department, 1st January 1966	15,000
Purchases (Raw materials)—A. Department . ..	40,000
do. —B. Department . .	50,000
Returns Outwards—A. Department	700
do. —B. Department	500
Sales—A. Department	76,000
do. —B. Department	46,200
Returns Inwards—A. Department	1,000
do. —B. Department	1,200
Freight & Duty—A. Department	2,500
do. —B. Department	3,000
Wages—A. Department	11,000
do. —B. Department	8,000
Gas & Fuel—A. Department	750
do. —B. Department	800

	Rs
Factory Expenses—A Department	4 200
do —B Department	3 500
Furniture & Fixtures	12 000
Motor Vans & Vehicles	8 000
Postages & Telegrams	800
Salaries & Wages	6 400
Working Plant and Tools	24 000
Sample Book & Catalogues (Rs 500 in stock)	2 100
Discounts on Purchases	1 100
do on Sales	300
Sundry Debtors	30 000
Motor Expenses	2 400
Fire Premium (Rs 100 prepaid)	500
Sundry Creditors	40 000
Bad Debts Reserve 1st January 1966	2 300
Bad Debts	1 600
Office Rent & Taxes	4 000
Advertisements	640
Sundry Expenses	1 280
Drawings Account	5 930
Capital Account	87 700
Cash at Bank	1 600

Depreciate Working Plant and Motor Vans by 10% and Fixtures and Fittings by 5% Maintain the Reserve for Doubtful Debts at 5% on Debtors Stock of Raw Materials and Finished Goods on 31st December 1966 was A Department Rs 18 000 and B Department Rs 75 000 Wages were outstanding for A Department Rs 900 and B Department Rs 1 200

A [*For Departmental Trading and Profit & Loss Account see next page*]

BALANCE SHEET

As at 31st December 1966

Liabilities		Rs	*Assets*		Rs
Sundry Creditors —	Rs		Cash at Bank		1 600
On Open Accounts	40 000			Rs	
For Outstanding Wages	2 100	42 100	Sundry Debtors	30 000	
			Less Reserve for Doubtful Debts at 5%	1 500	28,500
Capital Accounts —					
Balance on 1st January 1966	87 700		Stock in Trade —		
Less Drawings	5 930		A Depreciation	18 000	
			B Depreciation	75 000	93 000
	81 770				
Add Net Profit during the year	40 030	1 21 800	Furniture and Fixtures	12 000	
			Less Depreciation at 5°o	600	11 400
			Motor Vans and Vehicles	8 000	
			Less Depreciation at 10%	800	7,200
			Working Plant and Tools	*24 000*	
			Less Depreciation at 10%	2 400	21 600
			Sample Books and Catalogues in Stock		500
			Insurance Prepaid		100
Rs		1 63 900		Rs	1 63,900

DEPARTMENTAL TRADING AND PROFIT & LOSS ACCOUNT

For the year ended 31st December 1966

—		Department A	Department B	Total	—	Department A	Department B	Total
		Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
To Opening Stock		12,000	15,000	27,000	By Sales			
„ Purchases (Raw Materials)					*Less* Returns Inwards .. .	75,000	45,000	1,20,000
Less Returns Outwards		39,300	49,500	88,800	„ Closing Stock (Raw Materials and Finished			
„ Wages		11,900	9,200	21,100	Goods) on 31st December 1966 ..	18,000	75,000	93,000
„ Factory Expenses		4,200	3,500	7,700				
„ Freight & Duty		2,500	3,000	5,500				
„ Gas and Fuel		750	800	1,550				
„ Gross Profit carried down		22,350	39,000	61,350				
Rs.		93,000	1,20,000	2,13,000	Rs.	93,000	1,20,000	2,13,000
To Salaries & Wages		4,000	2,400	6,400	By Gross Profit brought down .. .	22,350	39,000	61,350
„ Office Rent and Taxes		2,500	1,500	4,000	„ Discount	500	300	800
„ Sundry Expenses		800	480	1,280				
„ Motor Maintenance		1,500	900	2,400				
„ Sample Books & Catalogues (Consumed) ..		1,000	600	1,600				
„ Postage & Telegrams		500	300	800				
„ Advertisement		400	240	640				
„ Fire Premium		250	150	400				
	Rs.							
„ Bad Debts	1,600							
Add New Reserve	1,500							
	3,100							
Less Old Reserve	2,300	500	300	800				
„ Dep. at 10% on working Plant ..	2,400							
„ „ Motor Vans	800							
„ „ Fixtures and Fittings ..	600							
		2,375	1,425	3,800				
„ Net Profit transferred to Capital Account ..		9,025	31,005	40,030				
Rs.		22,850	39,300	62,150	Rs.	22,850	39,300	62,150

Q. 423 *What do you understand by the term Tabular or Columnar Book-keeping?*

A. Tabular or Columnar Book keeping does not differ in any way from the system of Double-Entry Book-keeping, but it only implies that the books of account kept in certain concerns are ruled with additional analytical columns for the purpose of collecting together transactions of a similar nature, so that the postings from such books can be made in totals with a view to avoid waste of time and clerical labour which would otherwise be entailed if the postings of all the entries were done individually In addition to the books of prime entry, sometimes the Ledgers are also ruled with additional columns so as at once to serve the purpose of Day Book and Ledger combined, in order to avoid the trouble of opening separate accounts for each individual While recording transactions in all such books, however, the principles of Double-Entry are strictly adhered to

Columnar Cash Books—The form of Cash Book with Cash, Bank and Discount columns on either side as given on page 21 is one of the instances of Columnar Cash Books The advantages of such a book have already been explained Another instance of a Columnar Cash Book would be found in a business where the Ledgers are kept on Self-Balancing System, where it would be ruled with additional columns for each of the Personal Ledgers on either side, and a form of this book is illustrated and explained on page 431 Where a business has got several departments or branches, the Cash Book may be ruled to provide a separate column for each of the departments or branches so that the receipts from and the payments on account of each department or branch can be posted in periodical totals Another instance of a Columnar Cash Book is the form of Analytical Petty Cash Book given on page 27

Columnar Journals—In the Chapter on Self Balancing of Ledgers, we have already discussed the Purchases and Sales Books and the Bills Receivable and Bills Payable Books (see page 430), ruled with extra columns for each of the Trade Ledgers, and they are all instances of Columnar Journals In a business having several Departments or Branches, the Purchase and Sales Books may be ruled with columns for each Department or Branch (see page 442), to enable separate Department or Branch Trading Accounts to be prepared These are further instances of Columnar Journals Other examples of Columnar Journals can be found on page 29 in the ordinary Bills Receivable and Bills Payable Books

Columnar Ledgers—As already stated, Columnar Ledgers are kept in order to save the unnecessary labour of opening individual personal accounts Such Ledgers are generally maintained by some undertakings of public

utility like Gas Companies, Electric Lighting Companies, Water Companies, Municipalities, etc., where on account of the peculiar nature of the business, the number of personal accounts in extraordinarily large, but the transactions with each person during a particular period are limited to one or two. In such cases, it would be an enormous waste of labour and time if entries in regard to sale to each individual were first made into a Day Book and then subsequently transferred to a separate account for each person to be opened in the Ledger in the usual way. To simplify matters, therefore, a Tabular Ledger ruled with proper columns is kept, which can be used both as a Day Book and as a Ledger combined. The transactions with each customer or consumer are entered horizontally, and from here, the position of each person can be ascertained. The vertical totals of the money columns will help to group transactions of a similar nature to be posted periodically to the Nominal Accounts concerned. The Consumers' Ledger of a Gas Company as given on page 453, is a good instance of a Tabular Ledger. When the Bills are prepared monthly or quarterly, this book will be written up from those bills. When cash is received, it will be posted from the Cash Book to the respective accounts in this book, and the balance unpaid during the period in question will be carried forward. The periodical totals of the columns "Charge for Gas Consumed", "Meter Rent", "Stove Rent", and "Sundry" will be credited to the respective nominal accounts. Similarly, the totals of the "Allowances" and "Bad Debts" Columns will be debited to the respective nominal accounts. The total of the last column "Balance c f." represents the amount still owing by the Consumers at the end of the period, and if the books are closed on that date, it will appear in the Balance Sheet as an asset.

The Consumers' Ledgers of Electric Lighting Companies and Water Companies are written up in a similar way.

Note:—Further instances of Columnar Books are given at the end of this Chapter, and the student would do well to study these.

Q. 424. *What is Visitors' or Window Ledger? Give a ruling of this book with a few imaginary entries filled in, and state how the book is written up. Explain also the working of the Sundry Visitors' Account.*

[*For Visitors' or Window Ledger, see pp. 448-49.*]

A. The Visitors' or Window Ledger is kept in a Hotel, and it serves the two-fold purpose of a Day Book and a Personal Ledger. It records the transactions with each Visitor from day to day, and having due regard to the peculiar nature of the business, it is necessary that this book should be kept written up-to-date. One or more pages of this book are allotted to each

[*Contd. on page 450*

VISITORS OR

Friday 10th

	1	2	3	4	5	6	7
	Name	Name	Name	Name	Name	Name	Name
DEBITS	Rs P	Rs P	Rs P	Rs P	Rs P	Rs P	Rs P
Brought Forward	35 50	47 65			19 94		
Apartments	4 00	4 00			3 50		
Boarding		8 00					
Breakfast	1 50				1 50		
Tiffins					3 00		
Dinners	4 50						
Suppers					1 50		
Servants Board, etc		2 00					
Tea Coffee Milk					0 38		
Minerals					3 25		
Wines & Spirits							
Beer Ale Stout	1 50						
Cigars Cigarettes	0 25				1 12		
Laundry		1 75					
Attendance							
Theatre Bookings					4 50		
Conveyance					1 25		
Extras							
Total Rs	47 25	63 40			39 94		
CREDITS							
Cash		63 00					
Allowances		0 40					
Bad Debts							
Personal Accounts					39 94		
Balance c/f	47 25						
Total Rs	47 25	63 40			39 94		

WINDOW LEDGER

February 1967

8	9	10		Daily Total	Brought Forward	Carried Forward
Name	Name	Name				
Rs. P.	Rs. P.	Rs. P.	DEBITS	Rs. P.	Rs. P.	Rs. P.
..	..	..	Brought Forward ..	103.08	....	103 08
..	..	..	Apartments ..	11.50	40.50	52.00
..	..	..	Boarding ..	8.00	30.00	38 00
..	..	..	Breakfast ..	3.00	12.00	15.00
..	..	..	Tiffins ..	3.00	15 00	18 00
..	..	..	Dinners ..	4.50	20 50	25.00
..	..	..	Suppers ..	1.50	5.00	6.50
..	..	..	Servant's Board, etc. ..	2.00	10.00	12.00
..	..	..	Tea, Coffee, Milk ..	....	1.50	1.50
..	..	..	Minerals ..	0.37	1.75	2.12
..	..	..	Wines & Spirits ..	3.25	14.50	17.75
..	..	..	Beer, Ale, Stout ..	1.50	8.75	10.25
..	..	..	Cigars, Cigarettes ..	1.38	9.12	10.50
..	..	..	Laundry ..	1.75	5.25	7.00
..	..	..	Attendance ..	....	....	....
..	..	..	Theatre Bookings ..	4.50	7.00	11.50
..	..	..	Conveyance ..	1.25	2.00	3.25
..	..	..	Extras ..	....	....	....
..	..	..	Total Rs.	150.58	182.87	333.45
			CREDITS			
..	..	..	Cash ..	63.00	115.00	178.00
..	..	..	Allowances ..	0.39	2.87	3.26
..	..	..	Bad Debts ..	....	....	....
...	..	..	Personal Accounts ..	39 94	....	39.94
..	..	..	Balance c/f. ..	47.25	65.00	112.25
..	..	..	Total Rs.	150.58	182.87	333.45

Contd from page 445]

day's transactions As can be seen from the form given on pp 448-49, there is a column for each Visitor, and the number at the top of each column represents the number of the room occupied by the Visitor Looking at each column vertically would indicate the day to-day position of each visitor The first item of Balance brought forward represents the amount due from the Visitor at the commencement of the day The further charges for the day applicable to each Visitor are entered in his column against the respective nominal items, and the total of the vertical column represents the total amount due from the Visitor at the end of the day

The credits in respect of each Visitor's Account are given just below the debits for the purpose of convenience On cash being received from Visitors, it will be entered in a separate Visitors' Cash Book, from where the amounts will be entered in the Visitors' Ledger in the columns relating to the Visitors concerned Any allowances granted will also be credited in the appropriate column against the respective item The balance due by the Visitor at the end of the day is carried forward and shown as the opening item on the next day

If a Visitor has left without settling his account in full, his account from the Visitors' Ledger will be removed and the balance due from him will be transferred to his personal account in the General Ledger, by making a Journal Entry debiting the Personal Account of the Visitor, and crediting Sundry Visitors' Account When cash is received from that Visitor, his Personal Account in the Ledger and not the Sundry Visitors' Account should be credited

The horizontal totals of each item of the debits in the Window Ledger are carried forward from day to day till the end of the month, and a Journal Entry will be made with the monthly total debiting Sundry Visitors' Account, and crediting the respective Nominal Accounts in the financial Ledger With the horizontal monthly totals of Allowances and Bad Debts, an entry will be made debiting the respective Nominal Accounts and crediting Sundry Visitors' Account The daily totals of the Visitors' Cash Book will be entered in the General Cash Book on the receipts side, from where they will be posted to the credit of Sundry Visitors' Account

The debit balance on the Sundry Visitors' Account at the beginning of each month would then necessarily represent the total amount due from the Visitors and must tally with the total of the balances due and brought forward on that day in the Visitors' Ledger

The Sundry Visitors' Account in the financial Ledger is thus a controlling account serving as a check on the Double-Entry working of the Visitors' Ledger

Q. 425. *Give specimen Rulings of a Columnar Cash Book for a Newspaper Company.*

A.

CASH BOOK OF A NEWSPAPER COMPANY

(Receipts Side)

Date	Particulars	Receipt No.	L.F.	Discount	Bank	Advertisements				Subscriptions		Cash Sales	Other Receipts
						Casual		Contract					
						Shorts	Others	Shorts	Others	Daily Paper	Weekly Paper		

(Payments Side)

Date	Particulars	Voucher No.	L.F.	Discount	Bank	Salaries	Wages	Contributors	Commission	Distribution Exps.	Rent	Petty Cash	Ledger Accounts

Q 426 *Give specimen Rulings of a Columnar Cash Book for a Hospital*

A.

CASH BOOK OF A HOSPITAL

(Receipts Side)

Date	Particulars	Rec No	L F	Bank	Annual Subscriptions	Donations	Legacies	Collection Boxes	Entertainments	Patients	Interest & Dividends	Probationers Fees	Other Receipts

(Payments Side)

Date	Particulars	Voucher No	L F	Bank	Provisions & Stores	Domestic Expenses	Tools and Instruments	Dispensary and Surgery	Establishment Exps	Repairs etc	Petty Cash	Sundries

Q. 427. *Give specimen Rulings of a Consumers' Ledger of a Gas Company.*

A. CONSUMERS' LEDGER OF A GAS COMPANY

Number	Name	Address	Cubic feet of Gas Consumed	Charge for Gas Consumption	Meter Rent	Stove Rent	Other Charges	Total Amount of Bill	Arrears brought forward	Total due	Amount paid	C. B. Folio	Discounts & Allowances	Bad Debts	Balance carried forward

Q. 428. *Give a specimen of a Tabular Cash Book suitable for a Charitable Institution.*

A. TABULAR CASH BOOK OF A CHARITABLE INSTITUTION

Date	Particulars	Receipt No.	L.F.	Total	Subscriptions	Donations	Interest & Dividend	Collection Books	Entertainments	Sundry Receipts	Date	Particulars	Voucher No.	L.F.	Charities	Postages	Wages and Salaries	Rent and Taxes	Printing & Stationery	Sundries

Q. 429. *Give Rulings of Columnar Cash Book & Purchases Book as are ordinarily used by Hotels.*

A.

COLUMNAR CASH BOOK FOR HOTELS

ate	Particulars	Total	Visitors' Payment	Bar Receipts	Billiard Receipts	Sundry Receipts	Date	Particulars	Total	L F	Ledger Accounts	Wines and Minerals	Cigars and Tobacco	Grocery & Provisions	Paid to Visitors	Wages	Salaries	Sundry Expenses	Rent, Rates and Taxes

COLUMNAR PURCHASES BOOK FOR HOTELS

Date	Name	Invoice No	L.F.	Total	Wines and Minerals	Grocery & Provisions	Cigars and Tobacco	Bed and Table Linen	Cutlery, Glass & Plate	Fixtures & Fittings	Laundry	Fuel	Repairs	Sundries

CHAPTER XII

BRANCH ACCOUNTS

Q. 430. *What purpose do the Branch Accounts serve? Classify the Branches from an accounting point of view.*

A. Where a business has several selling depots and branches, it is essential that complete records be kept of the transactions relating to each branch, so that the Head Office can prepare accounts therefrom showing the working results of each individual Branch, as well as of the business as a whole. It is thus possible for the management to see which of the Branches are working profitably and which require greater attention in order to secure better results.

The system of accounting necessary to record the Branch transactions will vary according to the nature of the Branch and the work it is entrusted with. *From the standpoint of accounting, the Branches may be divided in* the following four classes:—

(1) Where the Branches are merely depots for the purpose of selling goods supplied by the Head Office at cost;

(2) Where the Branches are supplied goods by the Head Office at selling price;

(3) Where the Branches can be regarded as distinct trading concerns, working independently of the Head Office;

(4) Where the Branch is situated in a country foreign to the Head Office.

Q. 431. *Explain in detail the Book-keeping records suitable for the Head Office and Branch where the Branch sells only the Head Office goods.*

A. The Branch in this case is merely a selling depot for the Head Office goods and as such it is essential that adequate supervision should be kept by the Head Office. The Branch Manager should be instructed to pay into a local bank to the credit of Head Office Account all cash received daily or remit the amount to the Head Office. The Head Office should pay by cheques all the fixed expenses of the Branch such as rent, wages, salaries, etc. For petty disbursements, the Branch Manager should be supplied with Petty Cash on the imprest system.

The Branch should send to the Head Office weekly or monthly statements giving particulars as to Cash and Credit sales during the previous period, the amount collected from the customers, the opening and closing balances on customers' accounts, the petty disbursements and the particulars of stock at the close of the period in question.

Record at Branch.—The books necessary at the Branch are Cash Book, Petty Cash Book, Day Book, Customers' Ledger and Stock Book The entries in these books will be made in the ordinary way

Record at Head Office—A separate account for each branch will be opened in the Head Office Ledger, to which all the transactions relating to the Branch will be posted Since the Head Office supplies the goods to Branches at cost price, it is necessary for the Head Office to distinguish such supplies from its own sales This is brought about by having a separate column one for each Branch in the Sales Book to record all such supplies Where, however, *there are several branches, a separate book called "Goods supplied to* Branches Book" may be kept with a column for each Branch

GOODS SUPPLIED TO BRANCHES BOOK

Date	Particulars	Total	Poona Branch	Ahmedabad Branch	Surat Branch	Belgaum Branch

With the monthly total of each column, the respective Branch Account will be debited and the total of the Total Column will be credited to Goods supplied to Branches Account The Balance on the latter account will be transferred to the Trading Account at the time of closing, and will be shown as a separate item there quite distinct from the sales

When remittances are received from the Branch, they will be entered in the Cash Book, wherefrom the Branch Account will be credited Where the remittances are numerous, it is preferable to keep separate columns for each Branch on the receipts side of the Cash Book On an amount being received from a Branch, it will be entered in the Bank or Cash Column and also in the particular Branch column The monthly totals of each Branch column will be posted to the credit of that particular Branch Account

Payments made by Head Office on account of Branch Expenses will be debited to the Branch Account concerned from the Cash Book Here again, the postings to each Branch Account may be effected in periodical totals, if the payments side of the Cash Book is provided with columns for each Branch

At the date of balancing, each Branch Manager should send a statement of Stock and Petty Cash on hand, and a list of customers' balances on that date From this information, a Journal Entry will be passed in the Head Office Books, debiting Branch Petty Cash, Branch Stock and Branch Debtors'

Accounts and crediting the particular Branch Account. The balance on Branch Account will now represent profit or loss, and will be transferred to the General Profit and Loss Account. The Branch Petty Cash, Stock and Sundry Debtors will appear as assets in the Head Office Balance Sheet. At the beginning of the next period, a reverse entry will be made debiting the Branch Account and crediting the Branch Petty Cash, Sundry Debtors and Stock Accounts.

Q. 432. *The Central Distributing Company of Bombay has a Branch at Poona which is supplied with all goods from Bombay. The Branch keeps its own Sales Ledgers, receives cash from the customers and remits the whole of the cash received daily to the Head Office. The expenses of the Branch are paid by cheques from the Head Office, but an imprest of Rs. 100 is kept with the Branch Manager for meeting petty disbursements. From the following particulars for the year ended 31st December 1966, prepare the Poona Branch Account in the Head Office Books.*

	Rs	Rs
Stock of Goods at the Branch on 1st January 1966		2,000
Sundry Debtors on 1st January 1966		4,000
Petty Cash with Branch Manager on 1st January 1966		100
Goods supplied to Branch during the year		40,000
„ returned from the Branch		1,000
Remittances from the Branch :—		
Cash Sales	4,000	
Received from Sundry Debtors	40,000	
		44,000
Cheques sent to Branch for :—		
Rent	480	
Salaries	960	
Telephone charges	300	
Sundry Expenses	125	
		1,865
Stock on 31st December 1966		4,000
Sundry Debtors, 31st December 1966		6,000
Petty Cash Balance on 31st December 1966		45

A. POONA BRANCH ACCOUNT

(In Bombay Books)

	Rs.	Rs.		Rs.
To Stock—1-1-66		2,000	By Returns	1,000
„ Sundry Debtors—1-1-66		4,000	„ Bank Cash Sales	4,000
„ Petty Cash—1-1-66		100	„ „ from Debtors	40,000
„ Goods Supplied		40,000	„ Stock—31-12-66	4,000
„ Bank—			„ Sundry Debtors—31-12-66	6,000
Rent	480		„ Petty Cash—31-12-66	45
Salaries	960			
Telephone	300			
Sundry	125			
		1,865		
„ General Profit & Loss Account—(Profit transferred)		7,080		
	Rs.	55,045	Rs.	55,045

On 1st January 1967, a Journal Entry will be made debiting Poona Branch Account with Rs 10,045 and crediting Poona Branch Stock Account Rs 4,000, Poona Branch Debtors Rs 6,000, and Poona Branch Petty Cash Rs 45

Q 433. *What purpose is served by charging out goods to Branches at selling price? Explain the system of accounting in such a circumstance*

A. The object of charging out goods to Branches at selling price is to keep the Branch Manager in the dark as to the actual cost of the goods, so that he cannot ascertain for himself the profit or loss made by his Branch The further advantage secured is that it helps the Head Office to keep a definite check on the Stock lying at the Branch

Assuming that all other arrangements between the Head Office and the Branch are the same as before, the book-keeping records at the Branch will be on the same lines as already indicated

In the Head Office Books, the Branch Account will be kept on similar lines as explained previously, but as the Branch is charged out goods at selling price, it will not be possible to ascertain the correct profit or loss made by the Branch without making certain adjusting entries at each balancing time The opening stock, the goods supplied to Branch, the returns from the Branch and the closing stock which are posted on the Branch Account at selling price ought to be there at cost, before a correct profit or loss can be ascertained The following adjustments are, therefore, necessary —

In order to nullify the excess debit given to the Branch Account and the *corresponding excess credit given to "Goods supplied to Branches Account"* in respect of goods supplied by Head Office at selling price, an adjusting entry should be made debiting "Goods supplied to Branches Account" and crediting the Branch Account with the difference between the cost and selling price of those goods

In order to ascertain the cost price of the goods supplied to each Branch, it is sometimes desirable to rule the Goods supplied to Branches Book with *separate columns for cost and selling prices as follows —*

GOODS SUPPLIED TO BRANCHES BOOK

Date	Particulars	Total		Poona Branch		Ahmedabad Branch	
		Cost	Selling	Cost	Selling	Cost	Selling

The totals of Selling Price columns will be posted in the usual way, and the adjusting entry would be made at the time of balancing with the difference between the totals of cost and selling price columns.

The credits in regard to Returns from the Branch also appear at sale price instead of the cost, and an adjustment entry is therefore necessary to eliminate the excess credit included therein. With the difference between the sale and cost price of the returns, an entry should be passed debiting the Branch Account and crediting Returns from Branches Account.

The closing stock of the Branch which is credited to Branch Account at selling price, will be adjusted by debiting the Branch Account and crediting an account called "Difference in value of Stock Account" with the difference between the cost and selling price of the stock.

It is advisable to make the abovementioned adjustments in a Private Ledger by means of a Private Journal, as otherwise, the Branch Manager may get to know of the cost price, and the object of the whole system would be frustrated.

It is now possible to ascertain the Profit or Loss on each Branch Account, which will be transferred to the General Profit and Loss Account as explained previously. The credit balance on the "Difference in value of Stock Account" will be deducted from the balance on Branch Stock Account, and the net amount will appear, as an asset in the Head Office Balance Sheet, the figure being included in the total stock of the concern.

At the commencement of the next period, the Branch Stock (at selling price), Branch Debtors, and Branch Petty Cash Accounts would be closed by transfer to the Branch Account. The credit balance on the Difference in value of Stock Account will be carried forward till the end of the period when it will be closed by transfer to the Branch Account in order to offset the excess debit included in the figure of opening Stock shown on the debit of the Branch Account at selling price. A Journal Entry will be made debiting Difference in value of Stock Account and crediting Branch Account.

Q. 434. *A Head Office in Bombay has a Branch in Ahmedabad to which the goods are invoiced by the Head Office at cost price plus 25 per cent. All cash received by the Branch is daily remitted to the Head Office. All expenses are paid from Bombay. From the following particulars show how the Branch Account will appear in the Head Office Books. Make the necessary adjusting entries to arrive at the correct profit or loss made by the Branch.*

	Rs	Rs
Stock on 1st July 1966 (at invoice)		12,500
Debtors on 1st July 1966		12 000
Goods Invoiced from Bombay		40 000
Remittances to Bombay —		
Cash Sales	16 000	
Cash received from Debtors	29 500	
		45,500
Goods Returned to Head Office		2 400
Cheques received from Bombay —		
Wages and Salaries	11 000	
Rent Rates etc	3 000	
Sundry Expenses	510	
		14,510
Stock on 31st December 1966 (at invoice price)		15 000
Debtors on 31st December 1966		22 500

A

HEAD OFFICE BOOKS

(Journal Entries)

		L.F	Rs	Rs
Difference in value of Stock Account To Ahmedabad Branch Account (Being the adjustment entry for the difference in cost and selling price of the opening stock appearing at selling price on the debit of the Branch Account)	Dr		2,500	2 500
Goods supplied to Branch Account To Ahmedabad Branch Account (Being the entry for adjusting the difference in cost and selling price of goods supplied to Branch at selling price)	Dr		8 000	8 000
Ahmedabad Branch Account To Returns from Branches Account *(For adjusting the excess cred ts included in the Returns from the Branch being credited at selling price)*	Dr		480	480
Ahmedabad Branch Account To Difference in value of Stock Account (Being the adjustment to nullify the excess credit given to the Branch Account in respect of the closing stock credited at selling price)	Dr		3 000	3 000

AHMEDABAD BRANCH ACCOUNT

		Rs			Rs
To Stock—1 7 1966		12 500	By Bank —	Rs	
„ Debtors—1 7 1966		12,000	Cash Sales	16 000	
„ Goods supplied		40 000	From Debtors	29,500	
Bank —	Rs				45,500
Wages and Salaries	11 000		Returns		2 400
Rent Rates etc	3 000		„ Stock, 31 12-66		15 000
Sundry Expenses	510		„ Debtors 31 12-66		22 500
		14 510	„ Difference in value of Stock Account		2,500
Returns from Branches Account		480	„ Goods supplied to Branches Account		8 000
„ *Difference in value of Stock Account*		3 000			
„ General Profit & Loss Account—(Profit transferred)		13 410			
	Rs	95 900		Rs	95,900

Q. 435. *Where a Branch trades independently of the Head Office, what accounting records are kept at the Branch and at the Head Office?*

A. In this case, the Branch besides being supplied with goods from the Head Office will also buy independently. The Branch-Manager is not required to remit the daily cash receipts, as he would require some working capital to pay for his purchases and also to defray local expenses. The remittances will be made by the Branch in round sums as and when convenient. Similarly, the Head Office will remit such sums to the Branch as the latter may require. Thus, the Branch is supplied with Capital and goods by the Head Office for the purpose of carrying on the business.

Record at Branch.—The Branch will keep a complete set of books as is ordinarily maintained by any business, and will prepare a Trial Balance and its own Profit and Loss Account and a Balance Sheet therefrom.

The goods received from Head Office would be recorded quite distinct from the outside purchases made by the Branch, and for this purpose either a separate book should be kept or the Invoice Book should be ruled with an extra column for Head Office supplies as follows:—

INVOICE BOOK

Date	Particulars	Invoice No.	Ledger Folio	Total	Head Office Supplies	Outside Purchases

The periodical total of the Head Office column would be debited to Supplies from Head Office Account and credited to the Head Office Account. The former account will be closed by transfer to the Trading Account at the time of balancing and the item would be shown separately from the other purchases.

The Returns of Goods from the Branch to the Head Office would also have to be recorded separately from the other Returns Outwards of the Branch and the same will be periodically debited to the Head Office Account, from a special column maintained in the Returns Outwards Book as under:

RETURNS OUTWARDS BOOK

Date	Particulars	Debit Note No.	Ledger Folio	Total	Head Office	Outside Suppliers

The Head Office Account in the Branch Books at any time would represent the Capital invested by the Head Office in the Branch and would generally show a credit balance This Account would also be credited with cash remittances, if any, received from the Head Office and would be debited with the amounts remitted by the Branch to the Head Office

At the time of balancing, the Branch will prepare a Trading and Profit and Loss Account and the Profit or Loss thus ascertained will be transferred *to the Head Office Account* A Balance Sheet *will also be prepared* including the balance on Head Office Account which will be shown in just the same manner as the proprietors' capital

The Branch will submit a copy of its Trial Balance to the Head Office to enable the latter to ascertain the trading results of the Branch and to prepare a combined Profit and Loss Account and Balance Sheet showing the position of the business as a whole

Record in Head Office Books—In the Head Office Books, there will be a separate Branch Account for each Branch It would be debited with all goods supplied by the Head Office to that Branch and also with moneys sent, if any, to the Branch from time to time The remittances received from the Branch will be credited to the Branch Account The Returns of goods from the Branch will also be credited to the Branch Account Thus, the *account of each Branch in the Head Office Books will serve to record the* transactions in cash as well as goods that may have passed between the Head Office and that Branch Each Branch would also have similarly recorded in its own books the transactions that may have passed between itself and the Head Office It would thus follow that at any date, the balance on any particular Branch Account in the Head Office Books should tally with the balance on the Head Office Account in the books of that Branch The Head *Office Account in the Branch Books will generally show a credit balance,* whereas the Branch Account in the Head Office Books will show a similar balance on the debit

*On receipt of the Trial Balance from the Branch at the time of balanc*ing, the Head Office will incorporate the figures thereof in its own books by means of the following entries in order to ascertain the separate trading results of each Branch as also the combined result of the business as a whole —

(1) With the items which usually appear on the debit side of a Trading Account, Branch Trading Account will be debited and the Branch Account will be credited

(2) With the items which would appear on the credit side of a Trading Account, Branch Account will be debited and Branch Trading Account will be credited.

(3) With the closing Stock of the Branch, Branch Stock Account will be debited and the Branch Trading Account credited

Note:—The above entries will help the Head Office to ascertain the gross profit of each Branch.

(4) With the items of expenses and other losses which generally appear on the debit side of a Profit and Loss Account, the Branch Profit and Loss Account will be debited and the Branch Account will be credited.

(5) With the items of gains which would appear on the credit side of a Profit and Loss Account, the Branch Account will be debited and the Branch Profit and Loss Account will be credited.

(6) The Branch Profit and Loss Account will now show the net profit or loss made by the Branch, which figure will be transferred to the General Profit and Loss Account.

(7) With the items of assets appearing in the Branch Trial Balance, debit each respective Branch Asset Account and credit the Branch Account.

(8) With the items of liabilities from the Branch Trial Balance, debit the Branch Account and credit each respective Branch Liability Account.

The Head Office having assimilated in its own books the whole of the information conveyed by the Branch Trial Balance, each Branch Account will now be closed as a result of the above entries. The Head Office Balance Sheet will be include the Branch Assets and Liabilities which may either be shown separately or merged with its own assets and liabilities.

At the commencement of the next period, the entries (7) and (8) explained above will be reversed in the Head Office Books.

Q. 436. *How would you record the following in the Branch and Head Office Books:*

(a) Goods supplied by Branch to Head Office;

(b) Transfers of goods or money from one Branch to another Branch;

(c) Depreciation of Branch Fixed Assets the accounts of which are kept in the Head Office Books?

A. (a) Sometimes, instead of making its purchases direct, the Head Office might instruct a Branch to buy goods locally available and supply them to the Head Office. Naturally, the Branch cannot make profit on such supplies to the same extent as on Sales to its own customers, but it will be allowed by the Head Office to charge a certain percentage over cost to cover the expenses incurred by the Branch in buying. The Branch should, therefore, record such supplies to Head Office separately from its ordinary sales, so that its percentage of gross profit on turnover may not be wrongly affected. This may be done by keeping a separate book called "Goods supplied to Head Office Book", or by having a separate column headed "Head Office" in the Day Book and entering therein all supplies to Head Office. The monthly total of the Head Office column will be posted to the debit of Head Office Account, and to the credit of Supplies to Head Office Account.

In the Head Office Books also, the goods received from Branches will be recorded separately from Ordinary Purchases of the Head Office

It may happen that part of the supplies made either by the Branch to the Head Office, or vice versa may be returned, in which case, the records of such returns will also be kept separate from the ordinary Purchase and Sale Returns

Thus, in the Branch Trading Account, the supplies to and from the Head Office will appear as follows—

	Rs.		Rs
To Goods received from Head Office *Less* Returns		By Goods supplied to Head Office *Less* Returns	
Rs		Rs.	

Similarly, in the Head Office Trading Account, the supplies to and from the Branches will appear as follows —

	Rs		Rs
To Goods received from Branches *Less* Returns		By Goods supplied to Branches *Less* Returns	
Rs		Rs	

(b) Transfer of Goods or Money from one Branch to another.—When one Branch transfers goods or money to another, the transaction can be recorded by each Branch being allowed to open a current account of the other Branch. All inter branch transactions are entered in these current accounts, and the Trial Balance of each Branch will include the Current Accounts of the other Branches, which may either be debit or credit balances These will be regarded by the Head Office as assets and liabilities of the Branches and would be incorporated in the books in the usual way

If, however, it is not desired to open the current accounts of the branches as stated above, it will be necessary to record such inter branch transfers through the medium of the Head Office Account Thus, if "A" Branch supplied goods to 'B Branch, the transaction will be recorded as follows — In the "A Branch Books, the Head Office Account will be debited and Goods supplied to Head Office Account will be credited The Head Office will debit 'B' Branch Account and credit 'A' Branch Account The 'B' Branch will debit Goods received from Head Office Account and credit the Head Office Account

(c) Depreciation on Branch Fixed Assets.—When the accounts of the Branch Fixed Assets are kept in the Head Office Books, the Depreciation on such assets can be provided for by making the following entries in the Branch and Head Office Books —

In the Branch Books, debit the Depreciation Account and credit the Head Office Account. In the Head Office Books, debit the Branch Account concerned, and credit the respective Fixed Assets of the Branch.

Q. 437. *How would you deal with transfers of Goods or Cash between the Head Office and Branches, which are in transit at the time of balancing?*

A. Goods in Transit.—At the time of balancing, it may happen that goods have been supplied by the Head Office to a Branch just a day or two before the close of the financial period, but such goods are received by the Branch after the date of balancing. As such, the Branch will not credit the Head Office before the date of balancing, although the Head Office has debited the Branch. In such circumstance an adjusting entry should be made in the Head Office Books, debiting Goods in Transit Account, and crediting the Branch Account. The balance on the Branch Account in the Head Office Books will now tally with the balance of the Head Office Account in the Branch Books. The Goods in Transit Account will appear as an asset in the Head Office Balance Sheet, and will be transferred to the Branch Account at the commencement of the next period, by means of a reverse entry.

Remittances in Transit.—Just like Goods in Transit, it may happen that the Branch has remitted some amount to the Head Office on the last day before balancing. The Head Office may receive the remittance after the date of the financial close. As a result, the Head Office will not credit the Branch till after the closing period, yet the Branch has debited the Head Office before that date. In order to tally the balances on the two accounts, the Branch will make an adjusting entry in its books debiting Remittance in Transit Account and crediting the Head Office Account. The former Account will appear as an asset in the Branch Balance Sheet, and in the next period, it will be transferred to the Head Office Account, by means of a reverse entry.

Q. 438. *The following Balances are extracted from the books of the Bombay Head Office and Calcutta Branch:—*

BOMBAY	Rs.
Stock, 1st January 1966 ...	54,000
Calcutta Branch, Dr. ...	54,000
Capital	1,60,500
Drawings	27,000
Purchases (*Less* Returns) ...	96,000
Sales (*Less* Returns) ...	1,08,000
Goods supplied to Branch ...	50,000
Returns from Branch ...	2,000
Sundry Debtors	22,500
Sundry Creditors	21,000
Wages	12,000
Carriage	2,700
Office Salaries	3,000
Rent and Rates	1,800
Office Expenses	1,200
Plant at Bombay	36,000
Plant at Calcutta	24,000
Cash in Office	250
Bank Balance	3,050
Stock on 31st December 1966	50,400

CALCUTTA	Rs.
Stock, 1st January 1966 ...	39,000
Bombay Office, Cr.	42,000
Sundry Debtors	15,000
Purchases (*Less* Returns) ..	34,500
Goods received from Bombay	42,500
Returns to Bombay Office ...	2,000
Sales (*Less* Returns) ...	96,000
Sundry Creditors	6,000
Wages	8,000
Office Salaries	2,500
Carriage and Freight ...	1,200
Rent, Rates, etc.	1,200
Office Expenses	300
Cash in Office	350
Bank Balance	1,450
Stock on 31st December 1966	42,600

The Bombay Office sent goods worth Rs 7,500 to Calcutta Branch on 30th December 1966, but the Calcutta Branch received the same on 9th January 1967 The Calcutta Branch remitted to Bombay Office Rs 4 500 on 30th December 1966, but the money was received by Bombay Office on 4th January 1967 The Plant at Bombay and Calcutta is to be depreciated by 5%, the depreciation of the Calcutta Plant to be charged against Calcutta Profit

Make the necessary Journal Entries in the books of Bombay and Calcutta for reconciling their current accounts Prepare the Bombay Office Account, Trading and Profit and Loss Account and Balance Sheet in the Calcutta Branch Books Also give the Journal Entries to incorporate the Branch Trial Balance in the Head Office Books, and prepare the Branch Account Trading and Profit and Loss Account and Balance Sheet in the Bombay Books

A. JOURNAL ENTRIES IN CALCUTTA BRANCH BOOKS

		L F	Rs	Rs
Remittance in Transit Account *To Bombay Office Account* (Being the amount remitted to Bombay Office on 30th December 1966 but credited by the latter on 4th January 1967)	Dr		4 500	4 500
Depreciation Account To Bombay Office Account (Being depreciation at 5 per cent on Plant Account kept in Bombay Office Books)	Dr		1 200	1 200
Profit and Loss Account To Bombay Office Account (Being Net Profit made during the year transferred to Bombay Office Account)	Dr		10 200	10 200

JOURNAL ENTRIES IN BOMBAY OFFICE BOOKS

		L F	Rs	Rs
Goods in Transit Account To Calcutta Branch Account (Being the value of goods sent to Calcutta on 30th *December 1966 but credited by the latter on 9th* January 1967)	Dr		7 500	7,500
Calcutta Branch Account To Calcutta Plant Account (Being depreciation at 5 per cent provided on Calcutta Plant)	Dr		1,200	1 200
Branch Trading Account To Calcutta Branch Account (Being the incorporation of the following items from the Branch Trial Balance — Opening Stock Rs 39 000 Purchases 34 500 Good received from Bombay 40 500 Carriage and Fre ght 1,200 Wages 8 000 Rs 1,23,200)	Dr		1 23,200	1,23 200

JOURNAL ENTRIES—*contd.*

		L.F.	Rs.	Rs.
Calcutta Branch Account .. .. .. Dr. To Calcutta Branch Trading Account (Being the incorporation of the following items from the Branch Trial Balance :— Sales .. .. Rs. 96,000 Closing Stock .. .. 42,600 Rs. 1,38,600.)			1,38,600	1,38,600
Branch Trading Account .. .. .. Dr. To Branch Profit and Loss Account (Being the transfer of Branch Gross Profit.)			15,400	15,400
Calcutta Branch Profit and Loss Account .. .. Dr. To Calcutta Branch Account (Being the incorporation of the following items from *the Branch Trial Balance* :— Office Salaries .. .. Rs. 2,500 Rent, Rates, etc. .. .. 1,200 Office Expenses .. .. 300 Depreciation .. .. 1,200 Rs. 5,200.)			5,200	5,200
Calcutta Branch Profit and Loss Account .. .. Dr. To Capital Account (Being the transfer of Branch Net Profit to Capital Account.)			10,200	10,200
Branch Stock Account .. .. .. Dr. " Cash " .. .. .. " " Bank " .. .. .. " " Debtors " .. .. .. " " Remittance in Transit Account .. .. " To Calcutta Branch Account (Being the incorporation of Branch Assets from the Branch Trial Balance.)			42,600 350 1,450 15,000 4,500	63,900
Calcutta Branch Account .. .. .. Dr. To Branch Creditors' Account (Being the incorporation of Branch Liabilities from the Branch Trial Balance.)			6,000	6,000

[*For Calcutta Branch Books, see next page.*]

BOMBAY OFFICE ACCOUNT

	Rs.		₹.
To Balance c/d. ..	57,900	By Balance b/fd. ..	42,000
		" Remittance in Transit ..	4,500
		" Depreciation Account ..	1,200
		" Profit and Loss Account ..	10,200
Rs.	57,900	Rs.	57,900
		By Balance b/d. ..	57,900

CALCUTTA BRANCH BOOKS

TRADING AND PROFIT & LOSS ACCOUNT

For the year ended 31st December 1966

	Rs		Rs
To Stock, 1 1 1966	39 000	By Sales	96,000
„ Purchases	34,500	„ Stock, 31-12-1966	42,600
„ Goods received from Bombay	40 500		
„ Carriage and Freight	1,200		
„ Wages	8,000		
„ Gross Profit c/d	15,400		
Rs.	1,38,600	Rs	1,38,600
To Office Salaries	2,500	By Gross Profit b/d	15,400
„ Rent, Rates, etc.	1,200		
„ Office Expenses	300		
„ Plant Depreciation	1,200		
„ Net Profit transferred to Bombay Office Account	10,200		
Rs.	15,400	Rs	15,400

BALANCE SHEET

As at 31st December 1966

	Rs		Rs
Bombay Office Account	57,900	Cash in Office	350
Sundry Creditors	6,000	Bank Balance	1,450
		Remittances in Transit	4,500
		Sundry Debtors	15 000
		Stock in trade	42,600
Rs	63,900	Rs	63,900

BOMBAY OFFICE BOOKS

CALCUTTA BRANCH ACCOUNT

	Rs		Rs
To Balance	54,000	By Goods in Transit	7,500
„ Calcutta Plant Account (Depreciation)	1,200	„ Branch Trading Account	1,23,200
„ Branch Trading Account	1,38,600	„ Branch Profit & Loss Account	5,200
„ Branch Creditors	6 000	„ Branch Assets	63,900
Rs.	1,99,800	Rs.	1,99,800

TRADING AND PROFIT & LOSS ACCOUNT

For the year ended 31st December 1966

	Bombay Rs.	Calcutta Rs.		Bombay Rs.	Calcutta Rs.
To Stock 1-1-66 ..	54,000	39,000	By Sales ..	1,08,000	96,000
„ Purchases ..	96,000	34,500	„ Goods supplied to Calcutta ..	48,000	42,600
„ Goods received from Bombay ..		40,500	„ Stock, 31-12-66 ..	50,400	
„ Carriage and Freight ..	2,700	1,200			
„ Wages ..	12,000	8,000			
„ Gross Profit carried down ..	41,700	15,400			
Rs.	2,06,400	1,38,600	Rs.	2,06,400	1,38,600
To Office Salaries ..	3,000	2,500	By Gross Profit b/d. ..	41,700	15,400
„ Rent and Rates ..	1,800	1,200			
„ Office Expenses ..	1,200	300			
„ Depreciation on Plant .	1,800	1,200			
„ Net Profit transferred to Capital ..	33,900	10,200			
Rs.	41,700	15,400	Rs.	41,700	15,400

BALANCE SHEET

As at 31st December 1966

		Rs.			Rs.
Sundry Creditors :—	Rs.		Cash in Office :—	Rs.	
Bombay ..	21,000		Bombay ..	250	
Calcutta ..	6,000		Calcutta ..	350	
		27,000			600
Capital :—			Cash at Bank :—		
Balance ..	1,60,500		Bombay ..	3,050	
Add Bombay Profit ..	33,900		Calcutta ..	1,450	
„ Calcutta Profit ..	10,200				4,500
			Remittances in Transit ..		4,500
	2,04,600		Sundry Debtors :—		
Less Drawings	27,000		Bombay ..	15,000	
		1,77,600	Calcutta ..	22,500	
					37,500
			Stock-in-Trade :—		
			Bombay ..	50,400	
			Calcutta ..	42,600	
					93,000
			Goods in Transit ..		7,500
			Plant at Bombay ..	36,000	
			Less Depreciation ..	1,800	
					34,200
			Plant at Calcutta ..	24,000	
			Less Depreciation ..	1,200	
					22,800
	Rs.	2,04,600		Rs.	2,04,600

Q. 439. *When a Branch trading independently is situated in a foreign country, how should the figures in the Branch Trial Balance be incorporated in the Head Office Books?*

A. When the Branch is situated in a foreign country, naturally the Branch Books will be written up in the foreign currency, and the Trial Balance prepared from those books will also be in the foreign currency In order to incorporate the Branch Trial Balance in the Head Office Books, it would be necessary to convert the Branch Trial Balance in the Head Office Currency

Where the exchange between the Head Office and the Branch is stable, or there are only slight fluctuations, a fixed rate of exchange is usually adopted to convert all the figures in the Branch Trial Balance into the Head Office Currency

Where, however, the rate of exchange between the two countries is subject to violent fluctuations, the Branch Trial Balance should be converted as follows —

1 The Head Office Account should be converted at the same figure at which the Branch Account appears in the Head Office Books, subject of course to adjustments as regards goods and remittances in transit

2 Fixed Assets should be converted at the same rate of exchange as was ruling on the day when they were acquired

3 Floating Assets and Liabilities should be converted at the rate ruling on the date of balancing the books

4 The revenue items should be converted at the average rate during the period covered by the accounts

As the various items in the Branch Trial Balance are converted at different rates of exchange, it is but natural that the converted Trial Balance will not agree The difference in the converted Trial Balance will be placed to an account called "Difference in Exchange Account", which will be transferred to Profit and Loss Account

The converted Trial Balance would now be incorporated in the Head Office Books, and a combined Trading and Profit and Loss Account and Balance Sheet would be prepared therefrom

Q 440. *The London Head Office has a Branch in India, and the following Trial Balance of the Branch is forwarded to the Head Office Convert the Trial Balance in sterling and prepare therefrom a Profit and Loss Account and the Branch Account in the Head Office books as at 31st December 1965 —*

	Rs.	Rs.
Head Office Account, 1-1-1965		2,05,000
Remittances to London	40,920	
Land & Buildings ..	99,840	
Purchases	4,40,200	
Sales		6,20,000
Office Salaries	7,000	
Wages	1,10,000	
Plant & Machinery	80,640	
Office Expenses	8,000	
Loose Tools	9,600	
Cash and Bank Balances	6,720	
Sundry Debtors	21,120	
Bills Receivable	13,440	
Sundry Creditors		12,480
Bills Payable		18,240
Stock, 1st January 1965	18,240	
Rs.	8,55,720	8,55,720

Stock, 31st December 1965, Rs. 19,200.

Rates of Exchange, 1st January 1965, 1-5¾*d*., 31st December 1965 1-6¼*d*. Average rate for the year 1-6*d*.

The balance of Branch Account in the Head Office Books on 1st January 1965 stood at £15,217, and the remittances from Branch appeared at £3,093.

A.

BRANCH TRIAL BALANCE (Converted)

—	Rs.	Rs.	Rate of Ex-change	£	£
Head Office Account—1-1-65 ..		2,05,000	....		15,217
Remittances to London ..	40,920		....	3,093	
Land and Buildings ..	99,840		1 5¾	7,384	
Purchases ..	4,40,200		1 6	33,015	
Sales ..		6,20,000	1 6		46,500
Office Salaries ..	7,000		1 6	525	
Wages ..	1,10,000		1 6	8,250	
Plant & Machinery ..	80 640		1 5¾	5,964	
Office Expenses ..	8,000		1 6	600	
Loose Tools ..	9,600		1 5¾	710	
Cash & Bank Balances ..	6,720		1 6¼	511	
Sundry Debtors .	21,120		1 6¼	1,606	
Bills Receivable ..	13,440		1 6¼	1,022	
Sundry Creditors ..		12,480	1 6¼		949
Bills Payable ..		18,240	1 6¼		1,387
Stock, 1st January 1965 ..	18,240		1 5¾	1,349	
Difference in Exchange ..			....	24	
Rs.	8 55,720	8,55,720	£	64 053	64,053

BRANCH TRADING AND PROFIT & LOSS ACCOUNT

For the year ended 31st December 1965

	£		£
To Stock 1st January 1965	1 349	By Sales	46 500
„ Purchases	33 015	„ Stock 31st December 1965	1 460
„ Wages	8 250		
Gross Profit c/d	5 346		
£	47 960	£	47 960
To Office Salaries	525	By Gross Profit b/d	5 346
„ Office Expenses	600		
Difference in Exchange	24		
Net Profit transferred to General Profit and Loss Account	4 197		
£	5 346	£	5,346

BRANCH ACCOUNT

(in the Head Office Books)

	Rs		Rs
To Balance	15 217	By Remittances	3 093
„ Branch Trading Account	47 960	„ Branch Trading Account	42 614
„ Branch Liabilities	2 336	„ Branch Profit and Loss Account	1 149
		„ Branch Assets	18 657
Rs	65,513	Rs	65 513

DOUBLE ACCOUNT SYSTEM

Q. 441. *What do you understand by Double Account System? Does it differ from Double Entry Book-keeping?*

A. The Double Account System is a method of preparing the final accounts of certain undertakings of a public nature, such as Railways, Electric Light and Power Companies, Gas Companies, etc. which are incorporated under special Acts of Parliament. Under this system, it is possible to show what sum has been expended for the purpose of acquiring or constructing works and assets of a permanent nature, and what capital is raised for the purpose of such construction or acquisition.

For this purpose, the Balance Sheet is divided into two parts, the first part being called the Capital Account and the second part the General Balance Sheet. On the credit side of the Capital Account are shown Receipts of a capital nature, e.g. amounts received on issue of Stock, Shares or Debentures or by means of Loans of a permanent nature. The Premium received on issue of Shares or Debentures is treated as a Capital Receipt, and is shown on the credit side of the Capital Account. On the debit side will appear amounts expended in acquiring or constructing Fixed Assets of the undertaking. Legal charges incurred in acquiring the Fixed Assets and also any Parliamentary Expenses incurred in promoting Special Acts of Parliament are treated as expenses of a capital nature and are shown on the debit side of the Capital Account. The balance on the Capital Account is carried to the General Balance Sheet. In case of Electric Lighting Companies, it is the practice to take the totals of both the sides of the Capital Account to the General Balance Sheet. The General Balance Sheet contains all the Floating Assets and Liabilities together with any Reserves and balance on Revenue Account.

The Capital Account is constructed in a columnar form with three columns on either side. On the credit side, in the innermost column would be shown the capital receipts to the date of the previous Balance Sheet, in the middle column, the capital receipts during the period, and in the outer column, the total capital receipts to date. On the debit side, the Capital Expenditure is shown in a similar manner.

The Double Account System is not at all a system of book-keeping different from Double Entry Book-keeping. The transactions of all undertakings preparing their accounts under the Double Account System are recorded on the same principles of Double Entry as are followed by concerns preparing their accounts under the Single Account System. The only difference between the Double Account System and the Single Account System lies in the presentation of the Final Accounts, inasmuch as under the former system

the Balance Sheet is divided into two sections, whereas under the latter system the Balance Sheet takes the form of a single statement

Q. 442. *What are Fixed and Floating Assets and Fixed and Floating Liabilities?*

A. **Fixed Assets** are those which are of a permanent nature and are acquired for the purpose of equipment and not for resale Floating Assets are those which are acquired for the purpose of resale or for being consumed in the course of the business, or are held temporarily for their subsequent conversion in cash Thus in the case of a Railway, the Fixed Assets would be Permanent Way, Land and Buildings, Rolling Stock, Stations, Docks, Harbours, etc while the Floating Assets would be Cash, Investments, Consumable Stores, Coal, Accounts Receivable, etc

The term **Fixed Liabilities** is given to Share Capital, Debentures, Fixed Loans, etc which are more or less of a permanent nature, whereas **Floating Liabilities** are those which are of a temporary nature and are payable in the course of the business, e g. Bank Overdraft, Temporary Loans, Sundry Creditors on open accounts, Bills Payable, etc

Q. 443. *How would you deal with the following under the Double Account System?*

(a) Depreciation of Fixed Assets,

(b) Repairs and Renewals, and

(c) Extension or Additions to Fixed Assets

A. **(a) Depreciation.**—Under the Double Account System, the Fixed Assets are always shown in the Capital Account at their original cost without deducting any depreciation therefrom. They are not written down in the books year after year as in the case of Single Account System. Generally, however, depreciation on these assets is provided for by charging the appropriate amount to Revenue Account every year, and crediting Depreciation Fund Account The Depreciation Fund is invested in outside securities which are earmarked as Depreciation Fund Investments The Depreciation Fund and the corresponding investments are shown in the General Balance Sheet

(b) Repairs and Renewals.—Under the Double Account System, all repairs and renewals are charged to the Revenue Account of the same period in which they are incurred Obviously, this method is not equitable between the different periods, inasmuch as the charge in respect of repairs and renewals over the different years will be unequal, whereas the benefits derived by all the years from the use of the respective assets will be more or less equal. As such, the profits of the first few years of the undertaking will be unnecessarily large, since the charge for repairs and renewals during those years will be negligible, and the profits of the latter years in which the repairs and renewals are generally heavy will be understated In order, therefore, to equalise the

	Rs
Carriage and Wagon Repairs	25 800
Interest on Loan	42 170
Balance of Net Revenue Account 1 1 66	5 760
Compensation Fund	5 970
Debts due to other companies	5 690
Preference Dividend	*26 020*
Sundry Accounts Payable	1 19 940
Compensation Fund Investments	5 020
General Stores—Stock on Hand	1 06 530
Cash at Bankers	1 10 380
Bank interest received	800
Fire Insurance Fund	17 160
Traffic Accounts due to the Company	72 690
Legal Charges	4 390

A. *THE BALLARPUR STATE RAILWAY*

RECEIPTS AND EXPENDITURE ON CAPITAL ACCOUNT

Capital Expenditure	Amount expended to 31 12-65	Amount expended during the year 1966	Total	Capital Receipts	Amount received to 31-12 65	Amount received during the year 1966	Total
	Rs	Rs	Rs		Rs	Rs	Rs.
Permanent Way	71,22 290	45,214	71 67 504	Ordinary Share Capital	51 95 600		51,95 600
Rolling Stock	12,41,500	41 209	12,82,709	4% Preference Share Capital	27 03 825		27 03 825
Buildings and Stations	14,37 340	51,380	14 88 720	Loan from State	15 37 000		15 37 000
				Premium on Shares	4 68 188		4 68 188
Total Expenditure	*98 01 130*	*1,37 803*	*99 38,933*	*Total Receipts Rs*	*99 04 613*		*99 04 613*
				By Balance	(carried to General Balance Sheet)		34,320
Total		Rs	*99 38,933*	Total		Rs	*99,38 933*

GENERAL BALANCE SHEET

As at 31st December 1966

Liabilities	Rs	*Assets*	Rs
Balance at credit of Capital Account	34 320	Cash at Bankers	1,10 380
Debts due to other Companies	5 690	Compensation Fund Investments	5 020
Sundry Accounts payable	1 19 940	General Stores—Stock on hand	1 06,530
Compensation Fund	5 970	Traffic Accounts due to the Company	72 690
Fire Insurance Fund	17 160		
Net Revenue Account	1 11,540		
Rs	2,94 620	Rs.	2,94 620

THE BALLARPUR STATE RAILWAY

REVENUE ACCOUNT

For the year ended 31st December 1966

	Rs.		Rs.
intenance of Permanent Way ..	70,330	By Receipts from Passenger Traffic ..	1,84,180
keep of Locomotives ..	99,090	Parcel " ..	40,780
ffic Expenses	92,350	Goods " ..	2,79,990
tes and Taxes	20,560	Mail Service " ..	6,690
rriage and Wagon Repairs ..	25,800		
gal Charges	4,390		
lance carried to Net Revenue Account	1,99,120		
Rs.	5,11,640	Rs.	5,11,640

NET REVENUE ACCOUNT

	Rs.		Rs.
nterest on State Loan.. ..	42,170	By Balance from last year ..	5,760
ent Charges and Chief Rents ..	5,330	" Balance from Revenue Account ..	1,99,120
ent paid on Leased Lines ..	20,620	" Bank Interest	800
reference Dividend	26,020		
alance applicable for Dividends ..	1,11,540		
Rs.	2,05,680	Rs.	2,05,680

Q. 445. *The following balances are extracted from the books the Gangpur Electric Light and Power Co., Ltd., as at st December* 1966. *Prepare therefrom Final Accounts under the dian Electricity Act,* 1910.

	Rs.
Share Capital—	
8,000 Ordinary Shares of Rs. 100 each to 31-12-65	8,00,000
2,000 " " issued during the year	2,00,000
4,000 6 per cent Preference Shares of Rs. 100 each to 31-12-65	4,00,000
Cost of Licence	30,000
Leasehold Lands	1,00,000
Preliminary Expenses	20,000
Buildings (Balance to 31-12-65 Rs. 1,00,000)	1,10,000
Plant (" " 3,00,000)	4,20,000
Mains (" " 3,50,000)	4,60,000
Transformers, Motors, etc.	50,000
Meters (Balance to 31-12-65 Rs. 18,000)	24,000
Stores	1,000
Dead and Live Stock (Balance to 31-12-65 Rs. 10,000)	15,000
Public Lamps (" " 50,000)	60,000
Loose Tools (" " 6,000)	8,000
Fuel consumed	30,000
Oil, Waste and Engine Room Stores	4,000
Salaries of Engineers, Superintendents and Officers (Generation)	7,200
" " " " (Distribution)	4,800

		Rs
Power House Salaries and Wages		6 000
Management Expenses		9 600
Establishment Charges		7 200
Sale of energy for lighting purposes		1 00 000
" " power		70 000
Public Lighting		70 000
Rent of Meters		5 000
Miscellaneous Receipts		3 000
Rents Receivable		1,200
Transfer Fees		100
Sale of Ashes		500
Reconnection and Disconnection Fees		400
Interest on Bank Deposits		6 000
Repairs and Maintenance of Buildings		500
" " Plant		1 500
Distribution of Wages		1,200
Repairs and Maintenance of Mains		200
" " Public Lamps		1 820
" to Transformers		100
to Switches Cut-outs etc		50
Street Lighting Wages		1 200
Rents Payable		1 680
Rates and Taxes		350
Directors Fees		1,200
Auditors "		1 600
Legal Expenses		50
Bad Debts		100
Depreciation —	Rs	
Land (Leasehold)	2 000	
Buildings	4 000	
Plant	20 000	
Mains	24 000	50 000
Income-tax		1 000
Dividend on Ordinary Shares for 1965		48 000
on Preference Shares for 6 months to 30-6 66		12 000
Revenue Account Balance brought forward		80 000
Reserve Fund		10 000
Depreciation Fund		70 000
Investments at Cost		1 31 000
Interest accrued thereon		6 140
Stock of Stores 31 12 65		81 000
Sundry Consumers Accounts		37 000
Amount transferred to Reserve Fund		10 000
Creditors for goods supplied		24 000
Unclaimed Dividends		3 000
Expenses prepaid		5 000
Fixed Deposits with Bankers		80 000
Cash on Current Account		10 000
" in Office		4 850
Interest on Investments		1 140

A.

THE GANGPUR ELECTRIC LIGHT & POWER CO. LTD.

REVENUE ACCOUNT

For the year ended 31st December 1966

	Rs.	Rs.		Rs.
Generation Expenses:—			By Sale of energy for Lighting ..	1,00,000
To Fuel ..	30,000		„ Sale of energy for Power .	70,000
„ Oil, Waste and Engine Room Stores ..	4,000		„ Public Lighting ..	70,000
„ Power House Salaries and Wages ..	6,000		„ Rent of Meters, etc. .	5,000
„ Salaries of Engineers, Superintendents, Officers, etc. ..	7,200		„ Rents Receivable ..	1,200
„ Repairs and Maintenance of Buildings ..	500		„ Reconnection and Disconnection Fees ..	400
„ Repairs and Maintenance —Plant ..	1,500	49,200	„ Sale of Ashes .	500
Distribution Expenses:—			„ Miscellaneous Receipts ..	3,000
To Wages ..	1,200		„ Transfer Fees ..	100
„ Salaries of Engineers', etc.	4,800			
„ Repairs & Maintenance —Mains ..	200			
„ Repairs & Maintenance —Transformers ..	100			
„ Repairs & Maintenance —Switches ..	50	6,350		
Street Lighting Expenses:—				
To Wages ..	1,200			
„ Repairs & Maintenance ..	1,820	3,020		
Management Expenses:—				
To Directors' Fees ..	1,200			
„ Auditors' Fees ..	1,600			
„ Management Expenses ..	9,600			
„ Establishment Charges ...	7,200	19,600		
Depreciation:—				
To Depreciation on Land ..	2,000			
„ Depreciation on Building	4,000			
„ Depreciation on Plant ..	20,000			
„ Depreciation on Mains ..	24,000	50,000		
Rent, Rates and Taxes:—				
To Rent ..	1,680			
„ Rates and Taxes ..	350	2,030		
Miscellaneous:—				
To Legal Expenses ..	50			
„ Bad Debts ..	100	150		
„ Balance carried to Net Revenue Account ..		1,19,850		
	Rs.	2,50,200	Rs.	2,50,200

NET REVENUE ACCOUNT

	Rs		Rs	Rs
To Dividend on Preference Shares *for the half year to 30-6-1966*	12,000	By Balance from last year ..	80,000	
„ Transfer to Reserve Fund	10,000	*Less Dividend on Ordinary Shares for 1965* .	48,000	
„ Income-tax	1,000			32,000
„ Balance available for Dividends	1,45,990	„ Balance from Net Revenue *Account* .		1,19,850
		„ Interest on Investments .		11,140
		„ Interest on Bank Deposit ..		6,000
Rs	1,68,990	Rs		1,68,990

THE GANGPUR ELECTRIC LIGHT & POWER CO LTD
RECEIPTS AND PAYMENTS ON CAPITAL ACCOUNT
For the year ended 31st December 1966

Payments	Amount expended to 31-12-65	Expended during the year	Total	Receipts	Receipts upto 31-12-65	Receipted during the year	Total
	Rs	Rs	Rs		Rs	Rs	Rs
To Preliminary Expenses	20,000		20 000	By Ordinary Shares of *Rs 100* each	8,00,000	2,00,000	10,00 000
„ *Leasehold Land*	*1,00,000*		*1,00 000*				
„ Buildings	1,00,000	10,000	1,10,000				
„ Plant	3,00,000	1,20,000	4,20,000				
„ Mains	3 50,000	1,10,000	4,60 000	„ 6% Pre*ference* Shares of Rs 100 each	4,00,000		4,00,000
„ *Transformers,* Motors, etc	50,000		50,000				
„ Meters	18,000	6,000	24,000				
„ General Stores	1,000		1,000				
„ *Public Lamps*	*50,000*	*10,000*	*60,000*				
„ Dead & Live Stock .	10,000	5,000	15,000				
„ Loose Tools	6 000	2,000	8,000				
„ *Cost of Licence*	*30,000*		*30,000*				
Total Rs.	*10,35,000*	2,63,000	12,98,000	Total Rs.	12,00,000	2,00,000	14,00,000
To Balance ..			1,02,000				
Total Rs			14,00,000	Total Rs			14,00,000

THE GANGPUR ELECTRIC LIGHT & POWER CO LTD
GENERAL BALANCE SHEET
As at 31st December 1966

	Rs		Rs	Rs
To Capital Account— Amount Received	14,00,000	By Capital Account— Amount Expended .		12,98,000
„ *Creditors for Goods Supplied*	24,000	„ Stores .		81,000
„ Unclaimed Dividends	3,000	„ Sundry Consumers		37,000
„ Reserve Fund	10,000	„ Investments at Cost .		1,31,000
„ Depreciation Fund	70,000	„ Interest accrued thereon .		6,140
„ Net Revenue Account — *Balance at Credit thereof* .	1,45,990	„ Prepaid Expenses .		5,000
		„ Bank Fixed Deposits		80,000
		„ Cash on Current Account	10,000	
		„ Cash in Office ..	4,850	
				14,850
Rs	16,52,990	Rs.		16,52,990

Note:—When the Final Accounts are prepared under the Double Account System, the Net Revenue Account will include all the items of financial nature, in addition to the item of appropriation.

Q. 446. *A Gas Company laid down a main at a cost of Rs. 12,00,000. Some years later, owing to increased demand, the company laid down an auxiliary main of one-third of the length of the old main for Rs. 4,50,000 and replaced the rest of the main at a cost of Rs. 10,50,000, the cost of laying mains having increased by 20% in the meantime. Rs. 1,00,000 is realised from the sale of old materials, and old materials valued at Rs. 80,000 are used in replacing the main and included in the cost of Rs. 10,50,000.*

Make Journal Entries to record the new expenditure, apportioning the same between Capital and Revenue having regard to the increased cost of materials and wages.

A.

JOURNAL ENTRIES

	L.F.	Rs.	Rs.
New Mains Account .. .. .. Dr.		4,50,000	
To Cash			4,50,000
(Being the cost of Auxiliary Main.)			
New Mains Account .. .. .. Dr.		10 000	
Replacement Account .. .. .. „		9,60,000	
To Cash			9,70,000
(Being the amount expended in replacing ⅔rds of the old main apportioned between replacement 8,00,000 plus 20% for increased cost of materials and labour and the balance of Rs. 10,000 being capitalised.)			
Cash .. .. Dr.		1,00,000	
New Mains Account .. .. „		80,000	
To Replacement Account			1,80,000
(Being realisation from sale of old materials Rs. 1,00,000 and Rs. 80,000 being the cost of old materials used in replacing the main.)			

Note.—As a result of the above entries Rs. 54,000 are capitalised as the cost of laying and extending the mains, and Rs. 7,80,000 are charged to Revenue as the present cost of replacement less credits for old material realised and used in replacement.

CHAPTER XIV

BANKRUPTCY ACCOUNTS

Q. 447. *What is the object of Bankruptcy Law? What are the effects and consequences of a Receiving Order?*

A. When a person is overwhelmed with liabilities and he finds himself unable to meet them in the ordinary course, it becomes necessary for his estate to be administered under the Bankruptcy Laws of the country The object of the Bankruptcy Law is to realise the insolvent's estate, and to distribute the proceeds equitably amongst the creditors The insolvent is then freed from further liabilities which may have remained unsatisfied after the distribution. If, however, the insolvency is brought about by some fault of the insolvent, or if he is guilty of some offence under the Bankruptcy Law, he is punished by the Bankruptcy Court The petition in Bankruptcy may be presented either by the debtor himself or by one of his creditors

On hearing the petition, the Court makes a Receiving Order, the effect of which is that the debtor's property is removed from his possession and is placed in the hands of an officer of the Court called the Official Receiver, who becomes the legal owner of the property All actions and legal proceedings against the debtor by any of his creditors are stayed immediately the Receiving Order is made

Soon after the making of the Receiving Order, the debtor must make out a Statement of Affairs and submit the same to the Official Receiver. The Statement of Affairs is prepared with a view to show the debtor's financial position on the date of the Receiving Order, and also to ascertain what amount is available for the purpose of distribution amongst the unsecured creditors On the right-hand side of the Statement of Affairs are shown the assets, available for unsecured creditors at their realisable values, and on the left-hand side, the liabilities of the debtors The excess of liabilities over the assets represents the estimated deficiency, which is the loss to be suffered by the unsecured creditors

Q. 448. *What are the contents of a Statement of Affairs? Explain fully the various schedules prepared for the purpose under the English Bankruptcy Act*

A. The following documents make up the Official Statement of Affairs in Bankruptcy —

(1) **The Front Sheet** showing the various assets and liabilities of the debtor in a summarised form

(2) **The Schedules** giving full particulars of the assets and liabilities shown in the Front Sheet

(3) **The Deficiency Account** which gives an explanation of the causes leading to the debtor's insolvency

The various Schedules required to be prepared under the English Bankruptcy Act are explained hereunder:—

List A—Unsecured Creditors.—All the liabilities of the debtors due to persons who have a claim against the general assets of the debtor not specifically mortgaged or charged, will appear in this list. Thus, creditors on open accounts, creditors for Bills Payable and Promissory Notes, liability in respect of Bank Overdraft and outstanding creditors for rent, wages, salaries, etc. exceeding the preferential limit will be included in this list.

List B—Creditors Fully Secured.—A creditor whose debt is secured to the full extent by way of a legal or equitable mortgage, charge or lien upon any property of the debtor is termed a fully secured creditor. All such creditors will be shown in this list, together with full particulars of the securities given, the date when given, the estimated realisable values of the securities, and the estimated surplus from such securities. The surplus of securities in the hands of creditors fully secured is available for ordinary unsecured creditors of the debtor, and should be shown on the assets side of the Statement of Affairs, provided of course it is not charged in any other way.

List C—Creditors Partly Secured.—A creditor who holds a security which is insufficient to cover the whole debt due to him from the bankrupt is called a partly secured creditor. In the Statement of Affairs, the total debts due would be shown in the inner column, the estimated value of securities would be deducted therefrom, and the balance representing the debts unsecured would be extended in the outer column. This amount will rank for payment out of the general assets along with the other unsecured creditors as per list A.

List D—Liabilities on Bills Discounted other than Debtor's own Acceptances for Value.—The Bills accepted by the debtor himself are shown in the List A. The List D contains all Bills Receivable which have been discounted or endorsed over by the debtor, and which have not matured on the date of the Receiving Order. The total amount of such bills will be shown in the Gross Liabilities column, but the liability of the debtor will be limited to those bills only which are expected to be dishonoured on the due dates. The debtor's liability on all such bills will be estimated and will be shown in the outer column, as the amount expected to rank for dividend.

List E—Contingent or other Liabilities.—In this list will be included all such liabilities of the debtor, which are not definite at the date of the Receiving Order, but which may become definite in the future on the happening of a certain event, e.g., liabilities which may be incurred by the debtor under a contract of suretyship or guarantee, or liabilities in respect of uncompleted contracts, or of uncalled amount on partly-paid shares.

List F—Creditors for Rent, etc., Recoverable by Distress.—If the landlord has levied distress before the commencement of bankruptcy, he can recover any amount of rent due. If, however, the distress is levied after the

commencement of bankruptcy, he cannot recover more than 6 months' rent, as a preferential creditor

List G—Preferential Creditors—Preferential Creditors are those who are entitled to be paid in full in priority to the unsecured creditors

The following are Preferential Creditors under the English Bankruptcy Act—

(a) All local rates and taxes due and payable within 12 months before the date of the Receiving Order

(b) All salaries of any clerks in respect of services rendered during four months before the date of the Receiving Order, not exceeding £50, in each case

(c) All wages of any labourers in respect of services rendered during two months before the date of the Receiving Order, not exceeding £25 in each case

(d) All claims in respect of Workmen's Compensation made before the date of the Receiving Order

(e) Employer's contribution in respect of Unemployment and Health Insurance due for four months before the date of the Receiving Order

The amounts due to creditors under Lists F and G are shown in the Statement of Affairs on the Liabilities side in the inner column, and are deducted on the assets side from the total assets available for unsecured creditors

Deferred Creditors—The following creditors are not entitled to recover anything from the Bankrupt's Estate until all the unsecured creditors are paid in full—

(1) Loans made to the Bankrupt, the interest on which varies with the profits

(2) Loans made by wife to her husband for use in the latter's business, or by the husband to his wife for a similar purpose

(3) The vendor of goodwill of a business in consideration of a share in the profits of that business

List H—Property.—This list will contain all the properties and assets of the debtor which have not been mortgaged or charged, excluding the Book Debts and Bills of Exchange The book value of each asset is shown in the inner column of the Statement of Affairs, and the estimated realisable value is extended in the outer column. The difference between the two values represents loss on realisation which is shown in the Deficiency Account

List I—Debts due to the Estate—This list contains all debts due to the bankrupt at the date of the Receiving Order Good doubtful and bad debts will have to be separately shown. The good debts are shown in the outer

column, and debts estimated to be doubtful and bad are shown in the inner column, and only the amount expected to be realised from such debts is extended in the outer column.

List J—Bills of Exchange, Promissory Notes, etc.—This list contains particulars of all Bills Receivable and Promissory Notes in the possession of the debtor and unmatured at the date of the Receiving Order. The book value is shown in the inner column, and the amount estimated to produce in the outer column.

Statement K—Deficiency Account.—This account is prepared with a view to explain how the deficiency as shown by the Statement of Affairs is brought about. The Official Receiver fixes the period for which the account is to be prepared. The excess of assets over liabilities at the commencement of the period would be shown on the left-hand side of this account. If, however, there was a deficiency on that date which would mean excess of liabilities over the assets, that amount will be shown on the right-hand side of the account as the first item. Further items on the left-hand side would be in respect of subsequent trading profits and income from other sources. On the right-hand side would be shown trading losses (if any) during the period, bad debts written off, household expenses, losses on the stock-exchange or through gambling, losses arising from dishonoured or accommodation bills and the estimated losses on the realisation of the assets. The balance on this account would be the deficiency, which figure must tally with the amount of deficiency as appearing on the Statement of Affairs.

Q. 449. *How does a Statement of Affairs prepared under the (Indian) Presidency-Towns Insolvency Act differ from that prepared under the English Bankruptcy Act?*

A. The Statement of Affairs under the (Indian) Presidency Towns Insolvency Act, 1909, is prepared on the same lines as the English Statement of Affairs. The only difference is that the Indian Statement of Affairs does not show separately the Liabilities on Bills Discounted or Accommodation Bills (List D) and Contingent Liabilities (List E). These are, however, included in List A.

The Preferential Debts under the (Indian) Presidency Towns Insolvency Act, 1909, are the following:—

(1) All debts due to the Central or State Governments or any local authority.

(2) All salaries and wages of any clerk, servant or labourer for services rendered to the insolvent during the four months before the presentation of the petition, not exceeding Rs. 300 for each such clerk and Rs. 100 for each such servant or labourer.

(3) Rent due to the landlord, not exceeding one month's rent.

Q 450. *What is the rule as regards the administration of the estate of a bankrupt firm?*

A. In the Bankruptcy of a partnership firm, there will be a joint estate or partnership property which shall be primarily liable for the debts of the firm, and a separate estate of each partner which shall be primarily liable for the private debts of the particular partner concerned. Where there is a surplus of the separate estate, it shall be dealt with as part of the joint estate, and if there is a surplus in the joint estate, it shall be dealt with as part of the respective separate estates, in proportion to the rights and interests of each partner in the joint estate.

Q. 451. *How does a Bankruptcy Statement of Affairs differ from an ordinary Balance Sheet?*

A. The points of difference between an ordinary Balance Sheet and a Bankruptcy Statement of Affairs are as follows —

(1) The Balance Sheet of a trader is prepared at periodical intervals with a view to show the true financial position of the person as far as his business is concerned. It will usually show the capital invested in the business, which is represented by excess of assets over liabilities. The Statement of Affairs in Bankruptcy is prepared not only to show the bankrupt's position in his business, but also as regards his private estate. As such, the Statement of Affairs will include the private properties and liabilities besides the business assets and liabilities. Moreover, the Statement of Affairs will show a deficiency represented by excess of liabilities over assets.

(2) The assets appearing in the Balance Sheet will usually be valued on the basis of a going concern, but in a Statement of Affairs all the assets are shown at their realisable or break up values.

(3) In the Statement of Affairs, the liabilities due to unsecured, fully-secured, partly secured and preferential creditors are shown distinctly from each other, whereas in the Balance Sheet no such distinction is made.

(4) The Statement of Affairs will show only such assets as are realisable and available for the general creditors of the bankrupt, whereas a Balance Sheet also includes assets which are intangible or fictitious, such as Goodwill, Preliminary Expenses, Prepaid Expenses, etc.

(5) Whereas the Form of Statement of Affairs is prescribed by the Bankruptcy Acts, there is no statutory form of Balance Sheet of sole traders and partnership firms.

Q. 452. *J Punamchand filed his petition on 30th June 1967 and his position on that date was as follows —*

Book Debts Good Rs 30,000, Doubtful Rs 9,000 estimated to produce Rs. 3,000, Bad Rs 1,500, Stock Rs 90,000 estimated to realise Rs 64,500,

Shares in the Central Cement Co., Ltd., Rs. 22,500 (estimated to produce Rs. 21,000); Shares in the Assam Tea Co., Ltd., Rs. 7,500 (estimated to produce Rs. 3,000); Cash at Bankers Rs. 750; Bills Receivable Rs. 1,500; Building Cost Rs. 22,500, valued at Rs. 18,000; Machinery Rs. 21,000 estimated to produce Rs. 16,500; Furniture Rs. 3,000 estimated to realise Rs. 2,250; Debentures in Miranda Copper Mines, Ltd., cost Rs. 9,400 estimated to realise Rs. 10,000; Sundry Creditors, on Open Accounts Rs. 90,000; Bills Payable Rs. 22,500; Creditors for Loan Rs. 60,000 who have a lien on the Cement and Tea Co.'s Shares; Mortgage on Buildings Rs. 15,000; Liability for Bills Receivable Discounted Rs. 10,500 (estimated to rank Rs. 5,250); Landlord for 2 months' rent Rs. 300; Creditors for salary (including Rs. 600 due to one of his clerks for four months' salary) Rs. 4,375.

On 1st July 1962, he started his business with a capital of Rs. 75,000. The profits for the first three years were Rs. 15,000, Rs. 6,750 and Rs. 4,500, but in the last two years he incurred a loss of Rs. 3,000 and Rs. 11,250 respectively after allowing interest at 5% per annum on the original capital each year. During the five years he had withdrawn Rs. 53,775 from the business. He has also lost Rs. 1,500 in betting, Rs. 16,500 in stock exchange transactions and Rs. 7,500 in cotton speculation.

Prepare a Statement of Affairs and a Deficiency Account in the form as prescribed by the Presidency Towns Insolvency Act, 1909.

A.

[*For Statement of Affairs of J. Punamchand, see next page.*]

STATEMENT (H) DEFICIENCY ACCOUNT

	Rs.		Rs.
Excess of Assets over Liabilities on 1st July 1962 ..	75,000	Net Loss arising from carrying on the business from 1st July 1962 to date of Adjudication Order, after deducting from profits the usual trade expenses . .	14,250
Net Profit arising from carrying on the business from 1st July 1962 to date of Adjudication Order, after deducting usual Trade Expenses ..	26,250	Bad Debts as per List "F"	7,500
Income on Profit from other sources since 1st July 1962:		Expenses incurred since 1st July 1962 other than usual Trade Expenses, *viz*: household expenses ..	53,775
Interest on Capital	18,750	Other Losses and Expenses :—	
Profit on Copper Mines Debentures	600	Loss through Stock Exchange transactions	16,500
Deficiency as per Statement of Affairs	26,925	" through betting in Cotton ..	1,500
		" on Speculation	7,500
		" on Stock-in-Trade ..	25,500
		" on Building .. .	4,500
		" on Machinery	4,500
		" on Furniture	750
		" on Shares	6,000
		" on Bills Receivable Discounted	5,250
Rs.	1,47,525	Rs.	1,47,525

STATEMENT OF AFFAIRS OF J PUNAMCHAND (Insolvent)

As on 30th June 1967

Gross Liabilities	Liabilities (as stated and estimated by the debtors)		Expected to rank	Assets (as stated and estimated by the debtor)	Book Value	Estimated to produce
Rs		Rs	Rs		Rs	Rs
1 23 450	Unsecured Creditors as per List A		1 18 200	Property as per List E viz —		
15 000	Creditors fully secured as per List B	15 000		(a) Cash at Bankers		750
	Estimated Value of Securities	18 000		(b) Cash in hand		
				(c) Cash deposited with Solicitors for costs of petition		
	Surplus carried to *contra*	3 000		(d) Stock in trade	90 000	64 500
				(e) Machinery	21 000	16 500
60 000	Creditors partly secured as per List C	60 000		(f) Trade Fixtures fittings utensils etc		
	Less Estimated value of securities	24 000		(g) Furniture	3 000	2 250
			36 000	(h) Life Policies		
4 225	Cred tors for rent rates taxes wages etc payable in full as per List D	4 225		(i) Other property, viz — Debentures in Miranda Copper Mines	9 400	10 000
	Deducted *contra*	4 225		Total as per List E		94 000
				Book Debts as per List F, viz —		
				Good		30 000
				Doubtful	9 000	
				Bad	1 500	
				Estimated to produce	10 500	3 000
				Bills of Exchange or other similar securities on hand as per List G Estimated to produce	1 500	1 500
				Surplus in the hands of creditors fully secured (per *con ra*)		3 000
						1 31 500
				Deduct creditors for preferential rent rates, taxes wages etc (per *contra*)		4 225
						1,27,275
				Deficiency explained in Statement (H)		26 925
		Rs.	1 54 200		Rs	1 54 200

Notes:—(1) The Preferential Creditors as per List "D" are made up as follows:—

	Rs.	Rs.
Landlord for Rent for 1 month only		150
Creditors for Salary	4,375	
Less salary due to a clerk in excess of the preferential limit	300	
		4,075
	Rs.	4,225

(2) The Unsecured Creditors as per List "A" are as under:—

	Rs.
Creditors on Open Account	90,000
Bills Payable	22,500
Landlord for Rent not payable as Preferential Creditor ..	150
Salary to a Clerk do. do. do. ..	300
Loss on Bills Discounted	5,250
Rs.	1,18,200

Q. 453. *The following particulars are obtained as on 17th December 1966, the date of the Receiving Order in the Bankruptcy of Solomon Grandy. Prepare a Statement of Affairs and Deficiency Account.*

Cash in hand £42-10-0; Book Debts: Good £1,215, Doubtful £439 (estimated to produce 10s. in the £1), Bad £82; Work-in-Progress £1,500 (estimated to produce £1,450); Plant, Tools, etc. £940 (estimated to realise £250); Office Furniture £12-10-0; Stock-in-Trade £950 (estimated to realise £720); Investments valued £3,100 of which are deposited with Bankers as security for loan £2,730; Life Policies of £1,000 of the estimated surrender value £735 subject to advances made by the Insurance Company amounting to £710; Unsecured Creditors for goods supplied £2,020; Creditors for loans £2,644; Issac Newton for 2 months' salary due to him £30; Jacob David for 6 months' salary due to him @ £15 per month; Rent recoverable by distress £22-10-0; Bankers for loans £5,067 (estimated value of securities £3,730, viz. Investments £2,730 and a mortgage on premises valued at £1,000); Capital Account on 1st January 1966 as shown by the books £94-10-0; Loss on Trading from 1st January to 17th December £187; Loss on sale of Investments made on 15th May £100; Drawings during 1966 £375.

A

STATEMENT OF AFFAIRS OF SOLOMON GRANDY

As on 17th December 1966—the date of the Receiving Order

Gross Liabilities	Liabilities (as stated and estimated by the debtor)		Expected to rank	Assets (as stated and estimated by the debtor)	Book Value	Estimated to produce
£ s		£ s	£		£	£ s
4 704 0	Unsecured Creditors as per List (A)		4 704	Property as per List (H) —		
	Creditors fully secured as per List (B)	710 0		Cash in hand		42 10
	Estimated value of Securities	735 0		Stock in trade	950	720 0
				Work in Progress	1 500	1 450 0
	Surplus to *contra* £	25 0		Plant Tools etc	940	250 0
				Office Furniture		12 10
5 067 0	Creditors partly secured as per List (C)	5 067 0		Investments		370 0
	Less estimated value of Securities	3 730 0				
			1 337	Total as per List (H)		2 845 0
	Liabilities on Bills discounted other than Debtors own acceptances for value as per List (D) viz —			Book Debts as per List (I)		
				Good		1 215 0
	On Accommodation Bills as Drawer Acceptor or Endorser			Doubtful	439	
				Bad	82	
	On other Bills as Drawer or Endorser			Estimated to produce	521	219 10
	Of which it is expected will rank against the estate for Dividend			Bills of Exchange or other similar Securities on hand as per List (J)		
	Contingent or other Liabilities as per List (E)			Estimated to produce		
				Surplus of Securities in the hands of fully secured creditors (per *contra*)		25 0
	Of which it is expected will rank against the estate for Dividend					4 304 10
22 10	Creditors for Rent recoverable by distress as per List (F)	22 10		*Deduct* Preferential Creditors (per *contra*)		102 10
80 0	Creditors for Wages Salaries, etc payable in full as per List (G)	80 0				4 202 0
				Deficiency explained in statement (K)		1 839 0
	Deduct *contra*	102 10				
		£	6 041		£	6 041 0

STATEMENT (K) DEFICIENCY ACCOUNT

	£	s.	d.			£	s.	d.
Excess of Assets over Liabilities as on 1-1-1966	94	10	0	Net Loss arising from carrying on the business from 1-1-1966 to 17-12-1966		187	0	0
Deficiency as per Statement of Affairs	1,839	0	0	Bad Debts as per List (I) ..		301	10	0
				Expenses incurred since 1-1-'66 other than usual Trade Expenses, viz:—				
				Household Expenses ..		375	0	0
				Other Losses:—	£			
				On realisation of Work-in-Progress..	50			
				Plant, Tools, etc. ..	690			
				Stock-in-Trade ..	230			
				Investments ..	100			
						1,070	0	0
Total to be accounted for £	1,933	10	0	Total accounted for £		1,933	10	0

Notes:—(1) The Preferential Creditors as per list (G) are made up as follows:—

		£
Salary to Issac Newton for 2 months	..	30
Salary to Jacob David for 4 months not exceeding £50		50
	£	80

(2) The Unsecured Creditors are made up as under:—

		£
Creditors for goods supplied	..	2,020
Creditors for Loans	..	2,644
Salary to Jacob David	..	40
	£	4,704

CHAPTER XV

INSURANCE ACCOUNTS

Q 454 *Explain what you understand by Life Assurance and give a brief explanation of the principal terms used in connection therewith*

A Life Assurance is a contract under which an Assurance Company in consideration of certain payments either made yearly half yearly or monthly undertakes to pay to the person for whose benefit the assurance is effected, a certain sum of money on the death of the person whose life is assured or to the assured himself after the lapse of a specified number of years The document containing such a contract is called a **Policy** The consideration paid to the company for undertaking the risk is called **Premium** and the person on whose life the policy is effected is called the **Assured.**

When the amount under a policy becomes payable only on the death of the assured, the contract is termed a **Whole Life Policy**, and where the payment is stipulated to be made either on the death of the assured or after the lapse of a specified number of years on the assured reaching a certain age whichever happens first it is called an **Endowment Policy** Either of these policies may be with or without profits according to the terms of issue

The first year s premium on a policy is termed **First Premium** or **New Premium** and the subsequent ones are known as **Renewal Premiums**

After the first three annual premiums are paid, a life policy is deemed to acquire a **Surrender Value** The latter represents the cash value of the policy which a company is prepared to pay to the assured on his agreeing to cancel the policy and forfeit all his rights in respect thereof The surrender value forms a certain percentage of the premiums paid and increases in amount from year to year

Every company sets its own limit upto which it will take risk on any one policy and when it issues a policy exceeding the above limit it protects itself by assuring the excess amount with another company at a liberal trade discount off the usual rates This process is termed **Re assuring** and the premiums thus paid by one Life Company to another are called **Re assurances**

On a policy acquiring a surrender value a policyholder may obtain from the company, a loan on the security of his policy Such **Loans on Policies** will always be within their surrender values

On a Life Assurance Company preparing its Annual Revenue Account the excess of its Revenue over the Expenditure for the period is called **Life Fund.** The Life Fund exists exclusively for the benefit of the policyholders and cannot therefore be utilised for the purpose of discharging the other liabilities of the Company Where an Insurance Company carries on any

other business such as Fire, Marine, Accident, etc. besides that of the Life Assurance, the accounts of Life Assurance receipts and payments must be kept quite distinct and the Life Fund must be invested in certain specific securities, and apart from the separate Revenue Account of the Life Department, the assets and liabilities of the Life Business must be shown on a separate Balance Sheet.

Q. 455. *What Books of Accounts are usually maintained by Life Assurance Companies?*

A. The columnar or tabular system of book-keeping is particularly suitable to insurance accounting, and as a result, most of the subsidiary records are of a tabular type, although the transactions are recorded on the ordinary principles of Double Entry. The books of accounts to be used would necessarily vary with the requirements of each particular business, but the following are in general use:—

Cash Books.—These are divided into Receipts Cash Book and Payments Cash Book, and where the transactions are voluminous, they may be further sub-divided into Premium Cash Book, Agency Cash Book, Dividends and Interest Cash Book, Claims Cash Book and General Cash Book. The daily totals of each of these cash books are then entered in the General Cash Book. The Petty Cash Book is usually of an analytical type.

Journals.—The Journals usually maintained are:—

Agency Debit Journal, for recording amounts of premiums to be collected by the Agencies.

Agency Credit Journal, for recording the amounts to be credited to the Agents, such as Commission, Loans on Policies granted by them, premiums on lapsed policies, etc.

Journal proper, for making adjusting entries, entries in regard to outstanding income or expenditure, closing entries, etc.

Ledgers.—These may similarly be sub-divided into—

(a) Branch and Agency Ledger;

(b) Nominal or Revenue Ledger;

(c) Investment Ledger; and

(d) General Ledger.

Besides the above Books of Account, a large number of Statistical Records outside the double-entry book-keeping is maintained, such as Proposal Register, Policy Registers, Renewal Premium Register, Investment Register, Claims Register, etc.

Q 456. *How is the Profit or Loss of a Life Assurance Company arrived at?*

A. Due to the peculiar nature of its business, the profit or loss made by a Life Assurance Company cannot be ascertained from the Revenue Account prepared annually just as in case of any ordinary commercial enterprise Before the ascertainment of any such profit, the first essential thing is to find out the present liability of the company on all its policies in force This is ascertained by means of an actuarial valuation, which is not made annually but once in five years, and is then known as quinquennial valuation The annual accounts published by every Life Assurance Company in shape of Revenue Account and Balance Sheet are provisional only and serve to indicate the approximate position of the Company from year to year The true financial position can only be ascertained with exactitude on the preparation of a Valuation Balance Sheet by the Company's Actuary The object of a Valuation Balance Sheet is to ascertain the net liability of the company on all its policies in force at the end of each five years with the help of the financial records as also the statistical data appertaining to each and every policy This actuarial valuation of the company's liability under its policies, is then compared with the amount of Life Fund as ascertained from the financial records If the Life Fund exceeds the present liability on policies, the excess is termed a surplus and represents the true profit On the other hand, if the Liability exceeds the Life Fund, the difference is known as deficiency and represents a loss

Q 457. *State briefly the important provisions of the Insurance Act,* 1938

A.

IMPORTANT PROVISIONS IN THE INSURANCE ACT, 1938

As modified upto 1st June 1950

Amongst the several important provisions embodied in the new Act, the *following may be mentioned.*—

(1) Compulsory registration of every company carrying on Insurance Business in India and obtaining of a Certificate of Registration from the Controller of Insurance (Sec 3).

(2) Requirement of a minimum working capital of at least Rs 50,000 exclusive of the Deposit to be made on registration and preliminary expenses, for companies carrying on Life Assurance business (Sec 6)

(3) Deposits to be lodged with the Reserve Bank of India not only by Life Assurance Companies but also by companies carrying on Fire, Marine, Accident, Workmen's Compensation, Motor Car and any other Insurance business in India, as under—

	Rs.
(a) For Life Business only	2,00,000
(b) For Fire Business only	1,50,000
(c) For Marine Business only	1,50,000
(d) For Miscellaneous Insurance only	1,50,000
(e) For Life and any one of (b), (c) or (d) of which Rs. 2,00,000 shall be the Deposit for Life Insurance Business	3,00,000
(f) For Life and any two of (b), (c) or (d) of which Rs. 2,00,000 shall be the Deposit for Life Insurance Business	4,00,000
(g) For Life and (b), (c) and (d) of which Rs. 2,00,000 shall be the Deposit for Life Insurance Business	4,50,000
(h) For any two of (b), (c) or (d) without Life Business	2,50,000
(i) For (b), (c) and (d) without Life Business	3,50,000
(j) Deleted.	

The amount of such Deposit may be paid either in Cash or in Approved Securities estimated at the market value of the Securities on the day of Deposit, or partly in Cash and partly in Approved Securities so estimated **(Sec. 7).**

(4) Where *more than one class* of Insurance Business *is carried on*, a separate account of the Receipts and Payments in respect of each such class of business will have to be maintained.

Where the business includes Life Insurance, the receipts and payments in respect of Life Business shall be kept separate from all other receipts and payments. The receipts in respect of such business shall form a separate fund to be called the Life Insurance Fund the assets of which shall be kept distinct and separate from all other assets of the business, and the deposit made in respect of Life Insurance Business shall be deemed to be a part of the assets of such Fund.

The Life Insurance Fund shall be the absolute security of the Life Policy-holders and shall not be liable for any contracts of the company other than that of Life Insurance Business. The Life Insurance Fund shall also not be applied directly or indirectly for any purposes other than those of the Life Insurance Business **(Sec. 10).**

(5) Preparation of Revenue Accounts and Balance Sheets in respect of the different classes of Insurance Business at the end of each calendar year, in accordance with the New Regulations and Forms as prescribed in the First, Second and Third Schedules to the Act **(Sec. 11).**

The Forms for the preparation of Balance Sheet, Profit & Loss Account and Revenue Accounts, as embodied in the Act, under the First, Second and Third Schedules, *are given under Q 458*

(6) The Annual Balance Sheet, Profit & Loss Account, Revenue Account and Profit & Loss Appropriation Account of every Insurance Company shall be audited by a qualified Auditor (Sec. 12).

(7) Every Life Insurance Company shall at least once in three years cause an investigation to be made by an Actuary into the financial condition of the Life Insurance Business including a Valuation of its liabilities in respect thereto, and shall publish an abstract of the Report of the Actuary in conformity with the requirements of the Act (Sec. 13).

(8) The Forms of Certificates to be given by the Directors, the Auditors and the Actuary have been specified in the Regulations under the Act

(9) Compulsory maintenance of separate Register of Policyholders and Register of Claims in respect of every class of Insurance business (Sec. 14).

(10) Filing of four copies of Audited Accounts and Statements with the Controller of Insurance within six months from the end of the financial period (Sec. 15).

(11) Furnishing the Controller of Insurance *with a certified copy of* every Report on the affairs of the Company soon after its submission to the members or policyholders of the Company (Sec. 18).

(12) Furnishing to the Controller of Insurance a certified copy of the minutes of the proceedings of every General Meeting, as entered in the Minute Book of the Company, within 30 days from the holding of such meeting (Sec. 19).

(13) Compulsory investment of assets at all times representing the Company's liabilities in respect of Life Insurance Business, 25 per cent in Government Securities, 25 per cent in Government or Approved Securities, and the *balance in Approved Investments as specified in Section 27A (Sec. 27).*

(14) Furnishing the Controller of Insurance with a certified Statement enumerating the assets held invested as required by Section 27 each year within 31 days from the beginning of the year, and within 15 days from the last day of March, June and September (Sec 28).

(15) Prohibition of any Loan or temporary advance either on hypothecation of property or on personal security to any Director, Manager, Managing Agent, Actuary, Auditor or Officer of the Company except by way of loans on Life Policies within their surrender value (Sec. 29).

(16) The holding of all assets and investments in the name of the Company, *except in so far as they are required to be vested in trustees* (Sec. 31).

(17) Restriction on management of the Company by a Company or Firm, or on employment of any officer or manager or person whose remuneration takes the form of Commission or Bonus, or a share in the valuation surplus of Life Business, within one year from the commencement of the Insurance (Amendment) Act, 1950 (Sec. 31A).

(18) Power of Controller of Insurance to investigate the affairs of a Company under certain circumstances (Sec. 33).

(19) Authority to Central Government to direct the Controller to order the investigation into the affairs of any Insurance Company and the latter to report to the Central Government on the results of such investigation made (Sec. 33).

(20) Employment of only licensed agents in future for procuring insurance business and the remuneration to be paid to them by way of commission not to exceed the following percentages:—

40% on First Year's Premium in Life Business,

5% on Renewals,

15% on Premium from any other business.

In case of new Life Assurance Companies:—

55% on First Year's Premium, and

6% on Renewals during the first ten years of business (Sec. 40).

(21) Limitation of expenses of management in Life Assurance Business, as also in General Assurance Business (Secs. 40B and 40C).

(22) Prohibition of any rebate on premium being allowed in future by any canvassing agent to the insured (Sec. 41).

(23) Regulations of employment of Principal Agents, Chief Agents and Special Agents (Secs. 42B and 42C).

(24) Compulsory maintenance by every Insurance Company of a Register of Licensed Insurance Agents employed by them giving full details as to their names, addresses, dates when appointed, and dates when appointment ceased (Sec. 43).

(25) Compulsory election on the Board of every Life Assurance Company of not less than one-fourth of the whole number of Directors from the policyholders, after one year from the commencement of this Act (Sec. 48).

(26) Restriction on declaration of any dividend to shareholders or any bonus to policyholders by a Life Insurance Company, except out of a surplus ascertained as a result of actuarial valuation (Sec. 49).

Q. 458. *Set out the Forms of Revenue Account, Profit and Loss Account, Profit & Loss Appropriation Account and Balance Sheet as prescribed by the Insurance Act,* 1938.

A.

FORM

Form of Revenue Account applicable

REVENUE ACCOUNT OF

IN RESPECT OF

—	Business within India		Business out of India		Total	
	Rs	P	Rs	P	Rs	P.
Claims under Policies (including provision for claims due or intimated) *less* Re insurances—						
By Death						
By Maturity						
Annuities *less* Re insurances						
Surrenders (including Surrenders of Bonus) *less* Re insurances						
Bonuses in Cash *less* Re insurances						
Bonuses in Reduction of Premiums *less* Re insurances						
Expenses of Management—						
1 (a) Commission to Insurance Agents (*less* that on Re insurances)						
(b) Allowances and Commission [other than commission included in sub item (a) preceding]						
2 Salaries etc (other than to agents and those contained in item No 1)						
3 Travelling expenses						
4 Directors fees						
5 Auditors fees						
6 Medical fees						
7 Law charges						
8 Advertisements						
9 Printing and Stationery						
10 Other expenses of management (accounts to be specified)						
11 Rents for offices belonging to and occupied by the insurer						
12 Rents of other offices occupied by the insurer						
Bad Debts						
United Kingdom Indian and Foreign Taxes						
Other Expenditure (to be specified)						
Profit transferred to Profit and Loss Account						
Balance of Fund at the end of the year as shown in the Balance Sheet						
Rs						

D. *(The Third Schedule).*

to Life Insurance Business.
FOR THE YEAR ENDED .... 19 .
.... BUSINESS.

——	Business within India		Business out of India		Total	
	Rs.	P.	Rs.	P.	Rs.	P.
Balance of Fund at the beginning of the year . ..						
Premiums, *less* Re-insurances—						
(i) First year premiums, where the maximum premium-paying period—						
Two years						
Three years						
Four years						
Five years						
Six years						
Seven years						
Eight years						
Nine years						
Ten years						
Eleven years						
Twelve years or over (including throughout life) .						
(ii) Renewal premiums						
(iii) Single premiums						
Consideration for Annuities granted, *less* Re-insurances .						
Interest, Dividends and Rents						
Less Income-tax thereon						
Registration Fees						
Other income (to be specified)						
Loss transferred to Profit & Loss Account ..						
Transferred from Appropriation Account . ..						
Rs						

[For Profit & Loss Account, see page 502 and for Profit & Loss Appropriation Account, see page 503.]

FORM

Form of

BALANCE SHEET OF

—	Life and Annuity Business (1)	Other Classes of Business (2)	Total
	Rs P	Rs P	Rs. P
Shareholders capital (each class to be stated separately)			
Authorised			
shares of Rs each Rs			
Subscribed			
shares of Rs each Rs			
Called up			
shares of Rs each Rs			
Less Unpaid calls Rs			
Reserve or Contingency Accounts			
Investment Reserve Account			
Profit and Loss Appropriation Account Balance			
Balances of Funds and Accounts			
Life Insurance Fund—			
(i) Business in India			
(ii) Business outside India			
Fire Insurance Business Account			
Marine Insurance Business Account			
Miscellaneous Insurance Business Account			
Other Accounts if any (to be specified)			
Pension or Superannuation Accounts			
Debenture Stock per cent			
Loans and Advances			
Bills payable			
Estimated Liability in respect of outstanding claims whether due or intimated			
Annuities due and unpaid			
Outstanding Dividends			
Amounts due to other Persons or Bodies carrying on Insurance Business			
Sundry Creditors (including outstanding and accruing expenses and taxes)			
Other sums owing by the Insurer (particulars to be given)			
Contingent Liabilities (to be specified)			
Rs			
Carried over Rs			

A. *(The First Schedule).*

Balance Sheet.

.... 19 .

—	Life and Annuity Business (1) Rs. P.	Other Classes of Business (2) Rs. P.	Total Rs. P.
Loans:			
On Mortgages of property within the States			
On Mortgages of property outside the States			
On security of municipal and other public rates			
On Stocks and Shares			
On Insurer's Policies within their surrender value			
On personal security			
To Subsidiary Companies (other than Reversionary)			
Reversions and Life Interests purchased			
Loans on Reversions and Life Interests			
Debentures and Debenture Stocks of Subsidiary Reversionary Companies			
Ordinary Stocks and Shares of Subsidiary Reversionary Companies			
Loans to Subsidiary Reversionary Companies			
Investments:			
Deposit with the Reserve Bank of India (securities to be specified)			
Indian Government Securities			
State Government Securities			
British, British Colonial and British Dominion Government Securities			
Foreign Government Securities			
Indian Municipal Securities			
British and Colonial Securities			
Foreign Securities			
Bonds, Debentures, Stocks and other Securities whereon Interest is guaranteed by the Indian Government or a State Government			
Bonds, Debentures, Stocks and other Securities whereon Interest is guaranteed by the British or any Colonial Government			
Bonds, Debentures, Stocks and other Securities whereon Interest is guaranteed by any Foreign Government			
Debentures of any railway in India			
Debentures of any railway out of India			
Preference or guaranteed Shares of any railway in India			
Preference or guaranteed Shares of any railway out of India			
Railway Ordinary Stocks (i) in India, (ii) out of India			
Other Debentures and Debenture Stock of Companies incorporated (i) in India, (ii) out of India			
Other guaranteed and Preference Stocks and Shares of companies incorporated (i) in India, (ii) out of India			
Other Ordinary Stocks and Shares of companies incorporated (i) in India, (ii) out of India			
Holdings in subsidiary Companies House property (i) in India, (ii) out of India			
Carried over Rs.			

FORM

—	Life and Annuity Business (1)	Other Classes of Business (2)	Total
	Rs P	Rs P	Rs P
Brought forward Rs			
Rs			

FORM B (*The Second Schedule*)

Form of Profit and Loss Account

PROFIT & LOSS ACCOUNT OF FOR THE YEAR ENDED 19

	Rs P		Rs P	Rs P
Indian (Central) Taxes on the Insurer's Profits (not applicable to any particular Fund or Account)		Interest Dividends and Rents (not applicable to any particular Fund or Account) *Less* Income tax thereon		
Expenses of Management (not applicable to any particular Fund or Account)		Profit on realisation of Investments (not credited to Reserves or any particular Fund or Account)		
Loss on Realisation of Investments (not charged to Reserves or any particular Fund or Account)		Appreciation of Investments (not credited to Reserves or any particular Fund or Account)		
Depreciation of Investments (not charged to Reserves or any particular Fund or Account)		Profit transferred from Revenue Account (details to be given)		
Loss transferred from Revenue Accounts (details to be given)		Transfer fees		
Other Expenditure (to be specified)		Other Income (to be specified)		
Balance for the year carried to Appropriation Account		Balance being loss for the year carried to Appropriation Account		
Rs		Rs		

A.—*Contd.*

——	Life and Annuity Business (1)	Other Classes of Business (2)	Total
	Rs. P.	Rs. P.	Rs. P.
Brought forward Rs.			
Freehold and Leasehold ground rents and rent charges ...			
Agents' Balances ...			
Outstanding Premiums ...			
Interest, Dividends and Rents outstanding ...			
Interest, Dividends and Rents accruing but not due ...			
Amounts due from other Persons or Bodies carrying on Insurance Business ...			
Sundry Debtors ...			
Bills Receivable ...			
Cash:			
At Bankers on Deposit Account ...			
At Bankers on Current Account and in hand ...			
At Call on Short Notice ...			
Other Accounts (to be specified) ...			
Rs.			

FORM C. (*The Second Schedule*).

Form of Profit and Loss Appropriation Account.

PROFIT & LOSS APPROPRIATION ACCOUNT OF ....

FOR THE YEAR ENDED .... 19 .

	Rs. P.		Rs.	Rs. P.
Balance being Loss brought forward from last year ...		Balance brought forward from last year ...		
Balance being Loss for the year brought from Profit and Loss Account (as in Form B) ...		*Less* Dividends since paid in respect of last year (to be specified and if "free of tax" to be so stated) ...		
Dividends paid during the year on account of the current year (to be specified and if "free of tax" to be so stated) ...		Balance for the year brought from Profit and Loss Account (as in Form B) ...		
Transfers to any particular Funds or Accounts (details to be given)		Balance being Loss at end of the year as shown in the Balance Sheet ...		
Balance at end of the year as shown in the Balance Sheet ...				
Rs.		Rs.		

Q. 459. *Explain briefly the nature of the items that appear in a Life Assurance Revenue Account.*

A. **Premiums.**—This item will consist of all premiums received during the financial period, as also all instalments due before the end of the balancing

period. The amount must appear at the net figure after deduction of the sums paid in respect of re-assurances

Consideration for Annuities Granted.—This item represents premiums received under "Annuity Policies" and these consist of single payments in return for which the company pays an annual sum either to the person assured or his nominee, from a specified date

Interests, Dividends and Rents.—This item should include not only all interest, dividend and rent received during the period, but also interest on gilt-edged securities and rents from properties that may have accrued due within the period of accounts The amounts should be shown at the gross figure and the income-tax deducted at the source should be shown by way of deduction therefrom, the net amount appearing in the outer column

Claims—These have to be shown under two heads—"Claims by Death" and "Claims by Maturity" The first item relates to claims paid under whole life policies on the death of the assured, the second relates to claims paid under endowment policies There should be included under these heads not only the claims made and actually paid during the year, but even claims admitted or intimated and not paid.

Surrenders.—These are cash payments made to policyholders on their surrendering the policies to the Company The amount of the surrender value on any policy is always much less than the total premium paid thereon as the company would deduct a percentage for establishment charges and also for the risk it had undertaken during the period the policy was in force

Annuities.—This item represents the annual amounts paid by the Company on annuity policies

Bonuses—These represent a portion of the profits distributed among policyholders and apply only to policies of assurance effected "with profits" The bonus may take the shape of a cash payment to the policyholder, or it may be a Reversionary Bonus which would mean that a certain sum is added to the value of the policy but it is payable on the maturity of the policy together with the original sum assured. The bonus may also be applied in reduction of premiums Where a bonus is applied in reduction of premium, the amount of bonus must be shown as an expenditure, and the gross amount of premium must be shown as income

Expenses of Management.—Under this head would be included all administration and establishment expenses incurred during the year, whether paid or outstanding Each item of payment must be stated separately under its distinct sub-heading as indicated in the prescribed Form

Life Assurance Fund at the end of the year.—This amount helps to balance the Revenue Account It is made up of the Life Fund at the commencement of the period, *plus* income *less* expenditure for the period In fact it represents a surplus available for meeting the net liability of the Company on the policies existing at the end of the financial period This balance

is carried forward to next year's books, and forms the opening Life Fund of the succeeding period.

Q. 460. *Briefly explain the nature of the following items appearing in the Balance Sheet of a Life Assurance Company:—*

(a) *Claims admitted, or intimated, but not paid,*
(b) *Agents' Balances,*
(c) *Outstanding premiums,*
(d) *Outstanding Interest, and*
(e) *Interest accrued but not payable.*

A. (a) **Claims Admitted or Intimated, but not paid.**—This is a liability and represents claims notified to the Company but not paid and, therefore, outstanding. All such outstanding claims at the end of each financial period are ascertained and brought into account by means of Journal Entry debiting Claims Account and crediting Outstanding Claims Account.

(b) **Agents' Balances.**—This item represents the amounts due by the Agents in respect of premiums collected by them. While including the total amount due by the Agents at the gross figure, the corresponding liability in respect of the commission due to the agents and not paid should also be brought into account.

(c) **Outstanding Premium.**—Under this heading will be included only such instances of premium as have actually become due within the financial period. While bringing such outstanding premiums into account, re-assurances, if any payable, should be deducted and the net amount should be shown as an asset. The liability in respect of Commission due to agents on these outstanding premiums should not be lost sight of.

(d) **Outstanding Interest.**—This item represents interest as has actually become due and payable before the date of the financial close and not received.

(e) **Interest Accrued but not Payable.**—This item represents the proportion of interest on gilt-edged Securities that has accrued due from the last due date of payment to the date of the Balance Sheet.

Q. 461. *What particular points need be remembered in connection with the Revenue Account, Profit and Loss Account and Balance Sheet of an Insurance Company?*

A. (1) The Prescribed Revenue Account of an Insurance Company contains the items of income or gains on the debit side and the expenses and losses on the credit side, as opposed to the general rule of book-keeping in connection with all other concerns.

(2) Where more than one class of business is conducted, there should be a separate Revenue Account for each class of business.

(3) The Profits derived from Fire, Marine or any class of Insurance other than Life Assurance can be ascertained from year to year, by setting against the income received during the period the amount of claims and

expenses, and reserving a percentage of the annual premiums (40% in first class concerns) to provide for unexpired risks

(4) The profits or losses of the several departments are then aggregated on another account styled Profit and Loss Account which also must show profits on the debit or left hand side and losses on the right hand or credit side

(5) Where a Company carries on any other Insurance business besides that of Life, there should be a separate Balance Sheet of the Life Assets and Liabilities so as to clearly indicate how the Life Fund stands invested, and another Balance Sheet to embody all other assets, liabilities on funds

(6) In case of a valuation year, the Investments and Securities of the Life Department must be valued at market price if the same is below cost

Q 462 *From the following figures for the year ended 31st December 1966 prepare Final Accounts of the National Life Assurance Co, Ltd*

	Rs	Rs
Claims by death (paid)	3 38 000	
Maturity (paid)	2 20 000	
Premiums Received		22 10 650
Bonus and Reduction of Premiums	3 000	
Agents and Canvassers Allowances	28 000	
Salaries	45 000	
Travelling Expenses	2 500	
Directors Fees	8 700	
Auditors Fees	2 500	
Medical Fees	40 000	
Commission	2 10 000	
Income-tax on Interest on Dividend	4 750	
Law Charges	500	
Advertising	4 300	
Printing and Stationery	12 200	
Postage and Telegrams	2 100	
General Charges	1 800	
Surrenders	35 000	
Re-Assurance Premium	30 000	
Interest and Dividends		2 70 000
Policy Renewal and Assignment Fees		1 700
Life Assurance Fund (1 1 1966)		26 85 000
Share Capital—5 000 Shares of Rs 100 each fully paid		5 00 000
Investments —		
3½ per cent Government Paper deposited with Comptroller General	2 00 000	
4 per cent 1960/70 Loan	20 00 000	
5 per cent Bonds	10 00 000	
5½ per cent Indian War Bonds	5 00 000	
4 per cent B P T Bonds	3 00 000	
5 per cent Bombay Municipal Bonds	2 00 000	
Furniture and Fixtures	10 000	
Agents Balances	40 000	
Cash at the Imperial Bank	15 000	
Cash at Office	3 500	
Loans on Company s Policies	55 000	
Annuities	30 000	
Considerations for Annuities granted		75 000
Unpaid Dividends		12 000
Investment Fluctuation Fund		5 70 000
Mortgage on Freehold Property in India	10 00 000	
Sundry Creditors		17 500
Rs	63 41 850	63 41 850

The following adjustments are necessary, and you are required to incorporate these:—

		Rs.	Rs.
Outstanding Premium	..		21,000
Claims Outstanding:—			
By Death	..	15,000	
By Maturity	..	12,000	
			27,000
Commission due to Agents	..		8,000
Allowances due to Agents	..		1,700
Interest Outstanding	..	14,700	
Less Income-tax	..	1,500	
			13,200
Interest accrued but not payable	..	8,500	
Less Income-tax	..	700	
			7,800

Depreciate Fixtures and Fittings by 5%.

Provide Rs. 20,000 for Investment Fluctuation Fund.

A.

THE NATIONAL LIFE ASSURANCE CO. LIMITED

REVENUE ACCOUNT

For the year ended 31st December 1966

Cr. Dr.

	Rs.	Rs.		Rs.	Rs.
Claims and outstanding :—			Life Assurance Fund, 1-1-1966		26,85,000
By Death ..	3,53,000		Premiums	22,31,650	
By Maturity ..	2,32,000		*Less* Re-assurance Premium ..	30,000	
		5,85,000			22,01,650
Surrenders .. .		35,000	Consideration for Annuities granted ..	..	75,000
Bonus in Reduction of Premiums ..		3,000	Interest and Dividend ..	2,93,200	
Annuities		30,000	*Less* Income-tax thereon	6,950	
Management Expenses :—	Rs.				2,86,250
Commission ..	2,18,000		Policy Renewal and Assignment Fees ..	..	1,700
Agents' and Canvassers' Allowances ..	29,700				
Salaries ..	45,000				
Travelling Expenses ..	2,500				
Directors' Fees ..	8,700				
Auditors' Fees ..	2,500				
Medical Fees ..	40,000				
Law Charges ..	500				
Advertising ..	4,300				
Printing and Stationery ..	12,200				
Postage and Telegrams ..	2,100				
General Charges ..	1,800				
		3,67,300			
Depreciation on Furniture ..		500			
Investment Fluctuation Fund ..		20,000			
Life Assurance Fund at the end of the year ..		42,08,800			
	Rs.	52,49,600		Rs.	52,49,600

THE NATIONAL LIFE ASSURANCE CO LIMITED

BALANCE SHEET

As at 31st December 1966

Liabilities	Rs	*Assets*		Rs
Life Assurance Fund	42,08 800	Mortgage on Freehold Property in India		10 00 000
Claims admitted or intimated but not paid	27 000	Loans on Co s Policies within their surrender values		55 000
Share Capital —		Investments —		
5 000 Shares of Rs 100 each fully paid	5 00 000	3½% Government Paper deposited with Comptroller-General	Rs 2 00 000	
Investment Fluctuation Fund	5,90 000	4% 1960/70 Loan	20 00 000	
Sundry Creditors	27,200	5% Bonds	10 00 000	
Unpaid Dividends	12 000	5% Indian War Bonds	5 00 000	
		4% B P T Bonds	3 00 000	
		5% Bombay Municipal Bonds	2 00 000	
				42 00 000
		Agents Balances		40 000
		Furniture and Fixtures		9 500
		Outstanding Premiums		21 000
		Interest Outstanding		13,200
		Interest accrued but not payable		7 800
		Cash —	Rs	
		At the State Bank	15 000	
		In hand	3,500	
				18,500
Rs.	53 65 000	Rs.		53 65 000

Q 463 *Prepare Revenue Accounts, Profit and Loss Account, and Balance Sheet as at 31st December* 1966 *from the following figures of the All-India Insurance Co, Ltd*

	Rs	Rs
Fire Department—		
Premiums		3 81 600
Claims paid and Outstanding	1 40 000	
Commission	21 400	
Expenses of Management	1 13 800	
Employers Liability Department—		
Premiums		8,92 400
Claims paid and Outstanding	1 52 400	
Commission	90 000	
Expenses of Management	3 01 900	
Marine Department—		
Premiums		36 02 800
Claims paid and Outstanding	14 15 800	
Commission	3 02 400	
Expenses of Management	8 61 900	
Accident Department—		
Premiums		52 000
Claims paid and Outstanding	4 800	
Commission	9 800	
Expenses of Management	12 400	
Share Capital		12 31 500
Claims admitted but not paid		9 01 400
Cash at Bank	1 60 000	
Mortgage on Properties	15 00 000	

	Rs.	Rs.
Cash in hand	2,900	
Indian Government Securities	10,05,200	
Foreign Government „	15,62,900	
Agents' Balances	12,62,900	
Sundry Debtors	21,000	
Investment Fluctuation Fund		3,37,400
Amounts due to other companies		80,000
Sundry Creditors		41,000
Depreciation in value of Securities	1,22,400	
Fire Department Fund, 1-1-1966		1,04,200
Employers' Liability Department Fund, 1-1-1966 .		2,62,400
Marine Department Fund, 1-1-1966		6,21,400
Accident Department Fund, 1-1-1966		10,000
Profit & Loss Account, Balance, 1-1-1966		2,92,800
Interest and Dividends		2,90,000
Furniture and Fittings	15,000	
Outstanding Interest	12,000	
Directors' and Auditors' Fees	10,000	
Rs.	91,00,900	91,00,900

You are required to maintain a Reserve for unexpired Risks at 40% of the Premium Income, in each of the Departments.

A.

THE ALL-INDIA INSURANCE COMPANY, LTD.—FIRE DEPARTMENT

REVENUE ACCOUNT

For the year ended 31st December 1966

	Rs.		Rs.
To Fire Fund at the beginning of the year ..	1,04,200	By Claims paid and outstanding ..	1,40,000
„ Premiums ..	3,81,600	„ Commission ..	21,400
		„ Expenses of Management ..	1,13,800
		„ Reserve for Unexpired Risks—40% of the Premium Income ..	1,52,640
		„ Profit and Loss Account—Transfer	57,960
Rs.	4,85,800	Rs.	4,85,800

EMPLOYERS' LIABILITY DEPARTMENT

REVENUE ACCOUNT

For the year ended 31st December 1966

	Rs.		Rs.
To Employers' Liability Fund at the commencement of the year ..	2,62,400	By Claims paid and outstanding ..	1,52,400
„ Premiums ..	8,92,400	„ Commission ..	90,000
		„ Expenses of Management ..	3,01,900
		„ Reserve for Unexpired Risks—40% of the Premium Income ..	3,56,960
		„ Profit and Loss Account—Transfer	2,53,540
Rs.	11,54,800	Rs.	11,54,800

MARINE DEPARTMENT
REVENUE ACCOUNT
For the year ended 31st *December* 1966

	Rs		Rs
To Marine Fund at the commencement of the year	6,21,400	By Claims paid and outstanding	14,15,800
„ Premiums	36,02,800	„ Commission	3,02,400
		„ Expenses of Management	8,61,900
		„ Reserve for Unexpired Risks—40% of Premium Income	14,41,120
		„ Profit and Loss Account—Transfer	2,02,980
Rs.	42,24,200	Rs	42,24,200

ACCIDENT DEPARTMENT
REVENUE ACCOUNT
For the year ended 31st *December* 1966

	Rs.		Rs.
To Accident Fund at commencement of the year	10 000	By Claims paid and outstanding	4,800
„ Premiums	52,000	„ Commission	9,800
		„ Expenses of Management	12,400
		„ Reserve for Unexpired Risks—*40% of Premium Income*	20,800
		„ Profit and Loss Account—Transfer	14,200
Rs.	62,000	Rs.	62,000

PROFIT & LOSS ACCOUNT
For the year ended 31st *December* 1966

		Rs		Rs
To Balance from last year		2,92,800	By Depreciation on Securities	1 22,400
„ Interest and Dividends		2,90,000	„ Directors' and Auditors' Fees	10 000
„ Profit transferred —	Rs.		„ *Balance carried to Balance Sheet*	*9,79,080*
Fire Department	57,960			
Employers' Liability Department	2,53,540			
Marine Department	2,02,980			
Accident Department	14,200	5,28,680		
Rs.		11,11,480	Rs	11,11,480

BALANCE SHEET
As at 31st *December* 1966

Capital and Liabilities	Rs.	*Assets*	Rs
Share Capital	12,31,500	Mortgages on Properties	15,00,000
Claims admitted but not paid	9,01,400	Investments —	
Investment Fluctuation Fund	3,37,400	Indian Government Securities	10,65,200
Amounts due to other Companies	80,000	Foreign Government Securities	12 62,900
Sundry Creditors	41,000	Agents' Balances	15,62,900
Profit and Loss Account—Balance	9,79,080	Sundry Debtors	21,000
Fire Fund	1,52,640	Furniture and Fittings	15,000
Employers' Liabilities Fund	3,56,960	Outstanding Interest	12,000
Marine Fund	14,41,120	Cash at Bank	1,60,000
Accident Fund	20,800	Cash at Office	2,900
Rs.	55,41,900	Rs	55,41,900

CHAPTER XVI

ACCOUNTS OF LIQUIDATORS AND HOLDING COMPANIES

Q. 464. *How does a Statement of Affairs as prepared in a Compulsory Liquidation differ from that prepared in Bankruptcy?*

A. The Statement of Affairs in Compulsory Liquidation is prepared on the same lines as the Statement of Affairs in Bankruptcy. The former is, however, divided into two parts, the first part showing the position of affairs as regards the Creditors, and the second part showing the position as regards Contributories. The (English) Companies Act, 1929, prescribes the form of Statement of Affairs, but there is no such form prescribed by the Companies Act, 1956.

The following further points should be noted while preparing a Statement of Affairs in Liquidation:—

(1) Where there are Debenture-holders having a floating charge over the assets of the Company, they are not shown as secured creditors under List B, but are shown in the inner column on the liabilities side, and are deducted from the assets left after deducting the Preferential Creditors.

(2) The Calls in Arrears are treated as an asset to the extent of the amount expected to be realised.

(3) Capital not called up is not shown as an asset, but is shown as a note at the foot of the Statement of Affairs.

(4) The Deficiency as shown by the first part of the Statement of Affairs as regards creditors is transferred to the second part of the Statement as regards contributories. To this amount will be added the amount of Capital paid-up, and the total will represent the total Deficiency to be accounted for.

The Preferential Creditors as per the (English) Companies Act (1929) are the same as in Bankruptcy, but those under the Companies Act, 1956, given below differ from the Preferential Creditors in Indian Insolvencies:—

(1) All rates and taxes due to the Governments or Local Authorities.

(2) Salary of any clerk or servant in respect of services rendered during two months next before the commencement of winding-up, not exceeding Rs. 1,000 for each such clerk or servant.

(3) Wages due to any labourer in respect of services rendered within two months next before the commencement of winding-up, not exceeding Rs. 500 for each such labourer.

Q 465 *From the following particulars extracted from the Books of the Paper-Castles Company, Limited, on 30th November 1966 on which date the Winding-up Order was made, prepare a Statement of Affairs (1) as regards Creditors, and (2) as regards Contributories —*

	£
Unsecured Creditors	10 500
Sterling Bank Ltd Overdraft	1 500
Bills Receivable in hand	2 250
Bills Receivable discounted £6 000 of which one Bill for £1 500 is known to be bad	
Bills payable	15 000
Book Debts (Good)	1 500
(Doubtful estimated to produce 10/ in the £)	1 050
(Bad)	900
Cash in hand	15
Stock in Trade (estimated to produce £6 000)	7 500
Machinery and Tools (estimated to produce £300)	750
Land and Buildings (estimated to produce £15 000)	22 500
Share Capital —	
30 000 Ordinary Shares of £1 each 10/- paid up	*15 000*
30 000 6 p c Pref Shares of £1 each fully paid	30 000
6 p c Mortgage Debentures secured by a floating charge over the assets of the Company exclusive of uncalled Capital (Interest paid to 30th September 1966)	22 500
Creditors fully secured (Value of Securities £5 250)	4 500
Creditors partly secured (Value of Securities £1 500)	3 000
Preferential Creditors for Rates Taxes Wages etc	900

A [*For Statement of Affairs as regards Creditors* *see next page*]

(2) As regards Contributories

	£	£		£
Capital issued and allotted viz			Total Deficiency as explained in Statement (O)	72,285
30 000 Ordinary Shares of £1 each 10*s* per share called up	15 000			
30 000 6% Pref Shares of £1 each fully paid	30 000			
		45 000		
Add Deficiency to meet liabilities as above		27 285		
	£	72,285	£	72,285

Q 466 *In a Voluntary Liquidation, what accounts are required to be prepared by the Liquidator?*

A *If a Voluntary Winding up is not concluded within one year after* its commencement, the Liquidator has to make up a statement of account showing how the winding up has been conducted, and in particular showing the receipts from realisation of assets, and payments made thereout This statement of account must be laid before a meeting of contributories held at the end of the first year and subsequently every year, and it must also be filed with the Registrar of Joint Stock Companies at such intervals as may be prescribed

IN THE MATTER OF THE COMPANIES ACT, 1929, and in the matter of the Paper-Castles Company, Limited
STATEMENT OF AFFAIRS
As at 30th November 1966, the date of the Winding-up Order
(1) As regards Creditors

Gross Liabilities	Liabilities		Expected to rank	Assets	Book Value	Estimated to produce
£		£	£		£	£
	Unsecured Creditors as per List "A"		27,000	Property as per List H:—		
4,500	Creditors fully secured as per List B (not including			Cash in Hand		15
	Debenture-holders)	4,500		Stock-in-Trade	7,500	6,000
	Estimated value of Securities	5,250		Machinery and Tools	750	300
				Land and Buildings	22,500	15,000
	Surplus to carried to *contra* £	750				
				Total as per List H ..		21,315
3,000	Creditors partly secured as per List C	3,000		Book Debts as per List I:—		
	Less estimated value of securities	1,500		Good		1,500
			1,500	Doubtful	1,050	
6,000	Liabilities for Bills discounted other than Company's own acceptance as per List D	6,000		Bad	900	
	Of which it is expected will rank for dividend ..		1,500	Estimated to produce ..	1,950	525
	Contingent or other liabilities as per List E ..	....				
				Bills of Exchange as per List J		2,250
	Of which it is expected will rank for dividend ..		....	Surplus of securities in the hands of creditors fully secured (per *contra*)		750
900	Preferential Creditors for Rates, Taxes, Wages, etc. as per List F, deducted *contra*	900				
				Estimated Total Assets ..		26,340
22,725	Loans on Debenture Bonds as per List G ..	22,500		*Deduct* Preferential Creditors (as per *contra*) ..		900
	Interest accrued thereon	225				
				Estimated amount available for Debenture-holders ..		25,440
	Deducted *contra*	22,725		*Deduct* Loans on Debenture Bonds secured on the assets of the Co. (as per *contra*)		22,725
				Estimated amount available to meet the claims of Unsecured creditors subject to cost of liquidation ..		2,715
				Estimated deficiency of assets to meet the Liabilities of the company subject to cost of liquidation ..		27,285
		£	30,000		£	30,000

NOTE:—The nominal amount of capital not called up is £15,000, which is available to meet the above deficiency.

Q. 467. *In what order should the Liquidator distribute the assets realised in a Winding-up?*

A. The Liquidator in Winding-up should distribute the assets realised strictly in the following order—

(1) In paying the secured creditors out of the proceeds of their securities
(2) In paying costs of liquidation including the Liquidator's own remuneration
(3) In paying Preferential Creditors
(4) In paying Debenture-holders having a floating charge
(5) In paying Unsecured Creditors
(6) The surplus, if any, to be distributed amongst the contributories according to their respective rights and interests

Q. 468. *In a Voluntary Liquidation where there is a surplus after payment of all the liabilities, how should such surplus be dealt with by the Liquidator?*

A In the event of a surplus remaining after all expenses and liabilities have been paid, such surplus must be distributed amongst the members of the Company according to their rights and interests in the property and profits of the company as laid down in the Memorandum and Articles of Association of the Company

Where there are several classes of shares, shares having preference as to return of Capital should be paid off first before anything is returned to the Ordinary Shareholders If the surplus is not sufficient to pay off the whole of the Preference Shareholders having preferences as to repayment of Capital, and if the Ordinary Shares are partly called up, the Liquidator will have to make a call on the Ordinary Shareholders, and the proceeds of the Call will be utilised in returning the Capital to Preference Shareholders If there are no Shares with preferential rights as to return of Capital, the whole surplus after payment of expenses and liabilities, should be distributed *pro rata* amongst all the shareholders

In distributing the surplus *pro rata* amongst the members of the same class, the Liquidator should see that proper adjustments are made between the shares which are fully paid and those which are only partly paid In such cases, it may become necessary to make a call on those shareholders whose shares are only partly paid, so that the amount contributed by the Shareholders in the same class may be equal amongst themselves

After repayment of the whole Capital to all the shareholders, if there still remains a surplus, the distribution of the same will depend upon the nature of the surplus and the rights of the members under the Memorandum and Articles of Association There have been many conflicting decisions on this point, and no hard and fast rules can be laid down in the matter Each case will have to be decided upon its own merits, and much will depend upon

the terms of the Memorandum and Articles defining the powers of the different classes of shares.

If the surplus be attributable to profits, and if the Preference Shareholders have already received all their dividends, such surplus would belong to the Ordinary Shareholders in the absence of anything to the contrary in the company's regulations.

Cumulative Preference Shareholders are not entitled to be paid from the surplus the arrears of dividends (if any) on their shares, if the dividends were not declared before the winding-up.

Q. 469. *The Prosperous Company, Limited, went into Voluntary Liquidation. The Capital of the Company consisted of* 100 *Deferred Shares of Rs.* 1,000 *each, Rs.* 800 *per share paid up,* 10,000 *Preference Shares of Rs.* 10 *each fully paid,* 70,000 *Ordinary Shares of Rs.* 10 *each, Rs.* 8 *per share called up. The holders of* 10,000 *shares have, however, paid up the full nominal value of their shares.*

The Company's Articles provide that the Preference Shares have priority over the Ordinary Shares, and the Ordinary Shares have priority over the Deferred Shares as regards the repayment of Capital.

The Unsecured Creditors amounted to Rs. 2,10,000, the Preferential Creditors were Rs. 10,900, and the Creditors fully secured were Rs. 54,000.

The Liquidator realised all the assets including those charged to fully secured creditors, for Rs. 4,29,000. The Liquidator is entitled to a remuneration at 3% on the amount realised, and 1½% on the amount distributed to unsecured creditors. The other costs of Liquidation amounted to Rs. 13,450. The Liquidator made a call of Rs. 200 per share on the Deferred Shares, which was fully paid.

Prepare the Liquidator's Final Statement of Accounts.

A. *THE PROSPEROUS CO. LTD.* (in liquidation)
LIQUIDATOR'S STATEMENT OF ACCOUNT

	Rs.	Rs.		Rs.	Rs.
To Realisation of Assets ..	4,29,000		By Liquidation Costs		13,4[illegible]
Less Assets to charged creditors fully secured	54,000	3,75,000	„ Liquidator's Remuneration :—	Rs.	
			3% on Rs. 3,75,000 ..	11,250	
			1½% on Rs. 2,10,000	3,150	[illegible]
„ Realisation of Call on 100 Deferred Shares at Rs. 200 per share..		20,000	„ Preferential Creditors ..		[illegible]
			„ Unsecured Creditors ..		[illegible]
			„ Preference Shareholders— Return of Capital ..		[illegible]
			„ Return of Capital on :— 10,000 Ordinary Shares Rs. 2.375 P. per share		[illegible]
			60,000 Ordinary Shares Rs. 37.5 P. per share		[illegible]
Rs.		3,95,000	Rs.		[illegible]

Note —The holders of 10,000 Ordinary Shares on which calls have been received in advance, will be returned Rs 2 per share more than on the other shares

Q 470 *A Limited Company went into voluntary liquidation with liabilities amounting to Rs 30 000 and assets which eventually realised Rs 1,80,000 The Capital of the Company consisted of 10,000 preference shares of Rs 10 each of which Rs 7 per share was called and paid up The holders of 8,000 shares had, however, paid up the full Rs 10 in advance of calls There were also 10,000 ordinary shares of Rs 10 each on which Rs 9 per share had been called Holders of 2,000 shares had, however, only paid Rs 8 per share while holders of 4,000 shares had paid up the full Rs 10 in advance of calls The Preference Shares have no priority in regard to refund of Capital Show how the Liquidator will divide the available balance amongst the shareholders assuming that the cost of winding-up amounted to Rs 4,000 and that Calls in arrears were duly collected*

A LIQUIDATOR S RECEIPTS AND PAYMENTS ACCOUNT

	Rs		Rs
To Sundry Assets realised	1 80 000	By Costs of Winding up	4 000
Calls in arrears on Ordinary Shares collected	2 000	„ Payment of Liabilities	30 000
		„ Refund of calls in advance —	
		Preference Shares	24 000
		Ordinary Shares	4 000
		„ Balance c/d	1 20 000
Rs	1 82 000	Rs	1 82 000
To Balance b/d	1 20 000	By 10 000 Ordinary Shares at Rs 2 per share	20 000
		10 000 Preference Shares at Rs 5 per share	50 000
		„ 10 000 Ordinary Shares at Rs 5 per share	50 000
Rs	1,20 000	Rs	1 20 000

Note —As Rs 9 per share have been called on Ordinary Shares and only Rs 7 on Preference Shares, and as the Preference Shares have no priority of refund, the Ordinary Shareholders must be paid first an amount to bring them on a par with the Preference Shareholders, the balance will then be distributed equally between Preference and Ordinary Shareholders, as there are 10,000 shares of each class

Q 471 *Define a Holding Company, and enumerate the objects and advantages of such a company*

A A Holding Company is one which holds shares in another com pany either directly or indirectly through a nominee so as to exercise a con

CHAPTER XVII

BANK ACCOUNTS

Q. 479. *What does the business of a Bank consist of?*

A. The business of a Bank consists of:—

1. Conducting Current Accounts of private individuals or firms and other trading enterprises.
2. Receiving Money on deposit.
3. Collecting dividends and interest on customers' Securities.
4. Holding shares, securities, deeds, etc. of customers in Safe Custody.
5. Allowing overdrafts and Loans on Negotiable Securities.
6. Buying and Selling Shares, Stocks and Securities on behalf of customers.
7. Discounting Bills of Exchange.
8. Issuing circular notes and letters of credit.

Q. 480. *How does a banker derive his profit?*

A. The profit of a banker is derived from the following sources:—

(a) From Interests on Overdrafts and Loans granted to customers.

(b) By judicious utilization of surplus balances on customers' accounts and other funds on hand.

(c) From discounts earned on Bills of Exchange bought before due date.

(d) From interest on gilt-edged securities held by him.

(e) From commissions and discounts charged to customers.

(f) By making a charge where the Customers' balance on current accounts falls below a certain amount.

Note:—The chief source of revenue of a Bank is derived by lending the money received on fixed deposits at a higher rate of interest than what it allows to its customers.

Q. 481. *What is the distinction between a Bank Current Account and a Bank Deposit Account?*

A. Current Account is a running account between a customer and his banker, in which the former daily puts in his cheques and cash and from which he withdraws by means of cheques whenever he likes. The usual practice of banks is to require a certain minimum balance to be maintained on a Current Account. Interest at rates varying from $\frac{1}{2}$ to 3% is allowed on the daily balance and credited to the customer at periodical intervals. A

certain rate of interest is charged by some banks when the balance falls short of the agreed amount

A **Bank Deposit Account** is where a lump sum of money is deposited with the banker for a definite period and carries an agreed rate of interest This is generally known as a Fixed Deposit, and the amount thus lodged cannot be withdrawn before the expiry of the period agreed upon The amounts placed with the bankers as Fixed Deposits can be utilised by him to advantage, as they cannot be withdrawn at the customer's choice, and under the circumstance, they carry a higher rate of interest than can be allowed on Current Accounts which can be drawn upon by customers as and when they like

Q. 482. *How does a Loan differ from an Overdraft?*

A. When a **Loan** is granted by a banker, the whole amount is placed at the disposal of the customer, and interest at an agreed rate is charged thereon from the date of the loan

In case of an **Overdraft,** a current account of the customer is supposed to have existed, and by arrangement the customer is allowed to draw to an agreed extent beyond the credit balance of his Current Account Intere t, in this case, is charged on daily balance

Q. 483. *What Books of Account are employed by Banks to record their transactions?*

A. As the principal transactions of banks involve the receipt or payment of money, the system of book-keeping used resolves itself into an elaborate analysis of cash transactions The receipts consist of coin, treasury or bank notes, cheques, etc paid into current or deposit accounts, commissions and interest earned, etc, while the payments include amounts paid out of current or deposits accounts, loans, interest to customers and general expenses of management, in addition to receipts and payments of cash over the counter, dealings in Bills of Exchange and Clearing House transactions have also to be brought into record

The following are the usual Books employed by Banks to record their transactions —

(1) **Receiving Cashier's Cash Books.**—These are kept by the receiving cashier who records all cash, notes, cheques, etc received over the counter The entries are made from the paying-in-slips received along with the moneys

(2) **Received Waste Book.**—This book analyses the daily total receipts It also contains a detailed analysis of cheques received under various headings for clearing purposes

(3) **Paying Cashier's Cash Books**—These record the Cash and notes paid over the counter on presentation of cheques